

Pension Lawyers Association Conference 2005

Costs of Saving for Retirement Options for South Africa

Presentation by: Rob Rusconi

SEI Investments



Anatomy of research

South African costs

- International context
- Methodology
- International costs
- Collective investments
- Occupational funds
- Individual policies



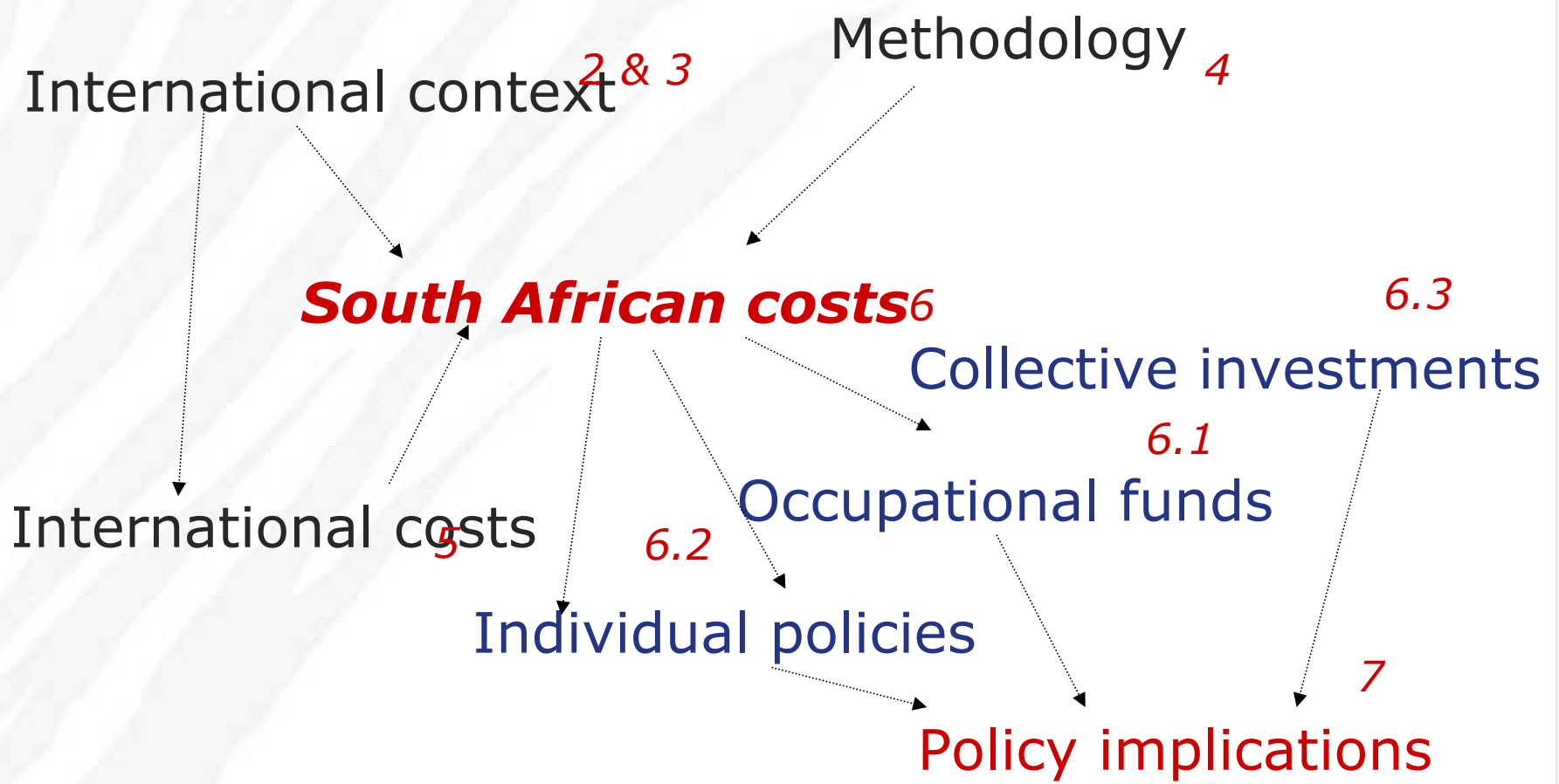
Anatomy of research cont.

Policy implications

- Occupational funds
- Collective investments
- Individual policies

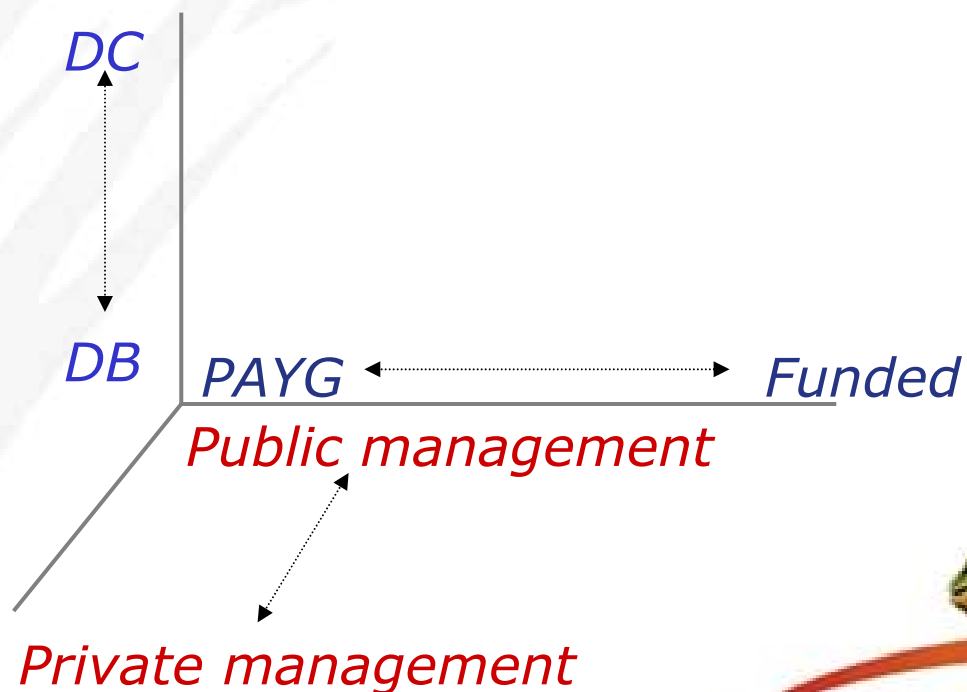


Anatomy of research



International context

- A large variety of systems exist



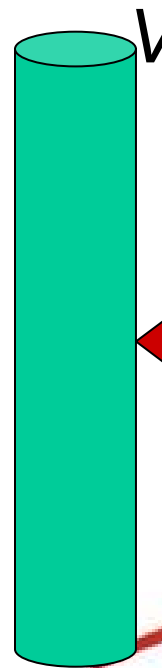
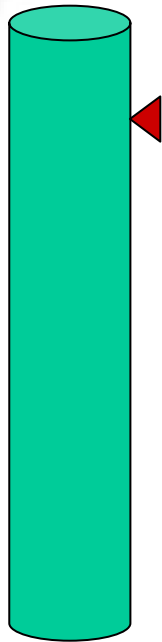
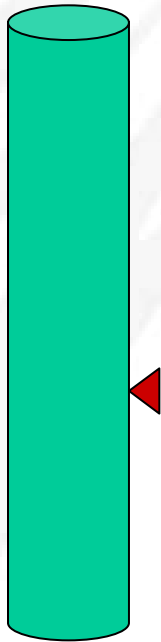
Ref: pages 12 - 13



International context

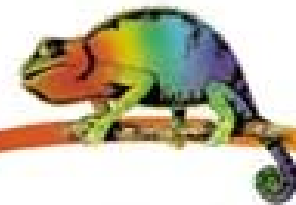
- A large variety of systems exist

Redistribution Compulsory saving



Voluntary saving

Ref: pages 13 - 16

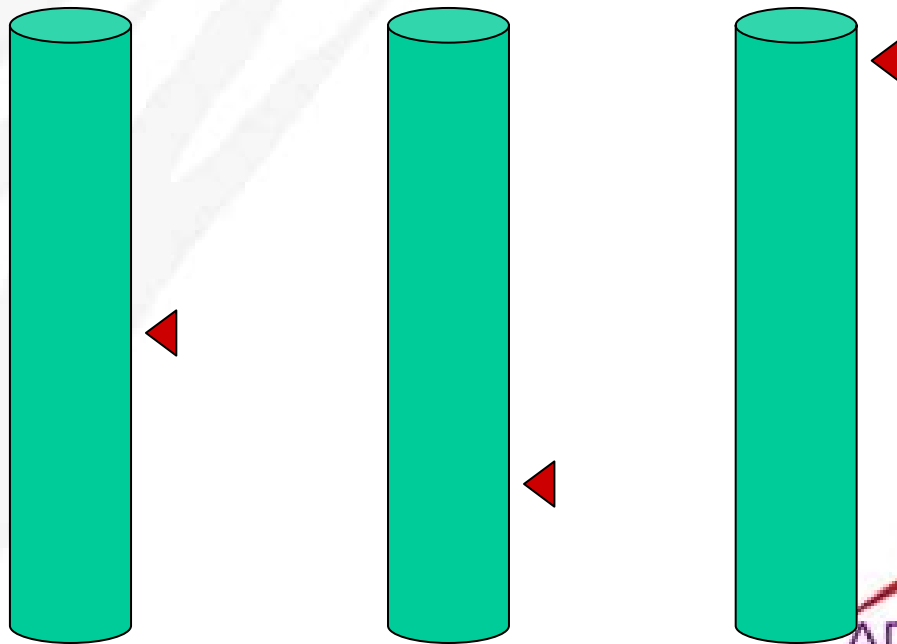


ADAPTING TO CHANGE
the only constant in life is change

International context

- A large variety of systems exist
(and SA is skewed to private sector)

Redistribution Compulsory saving Voluntary saving



Ref: page 44 - 45



International context

- A large variety of systems exist...
 - ... with a common problem

Population over sixty years old

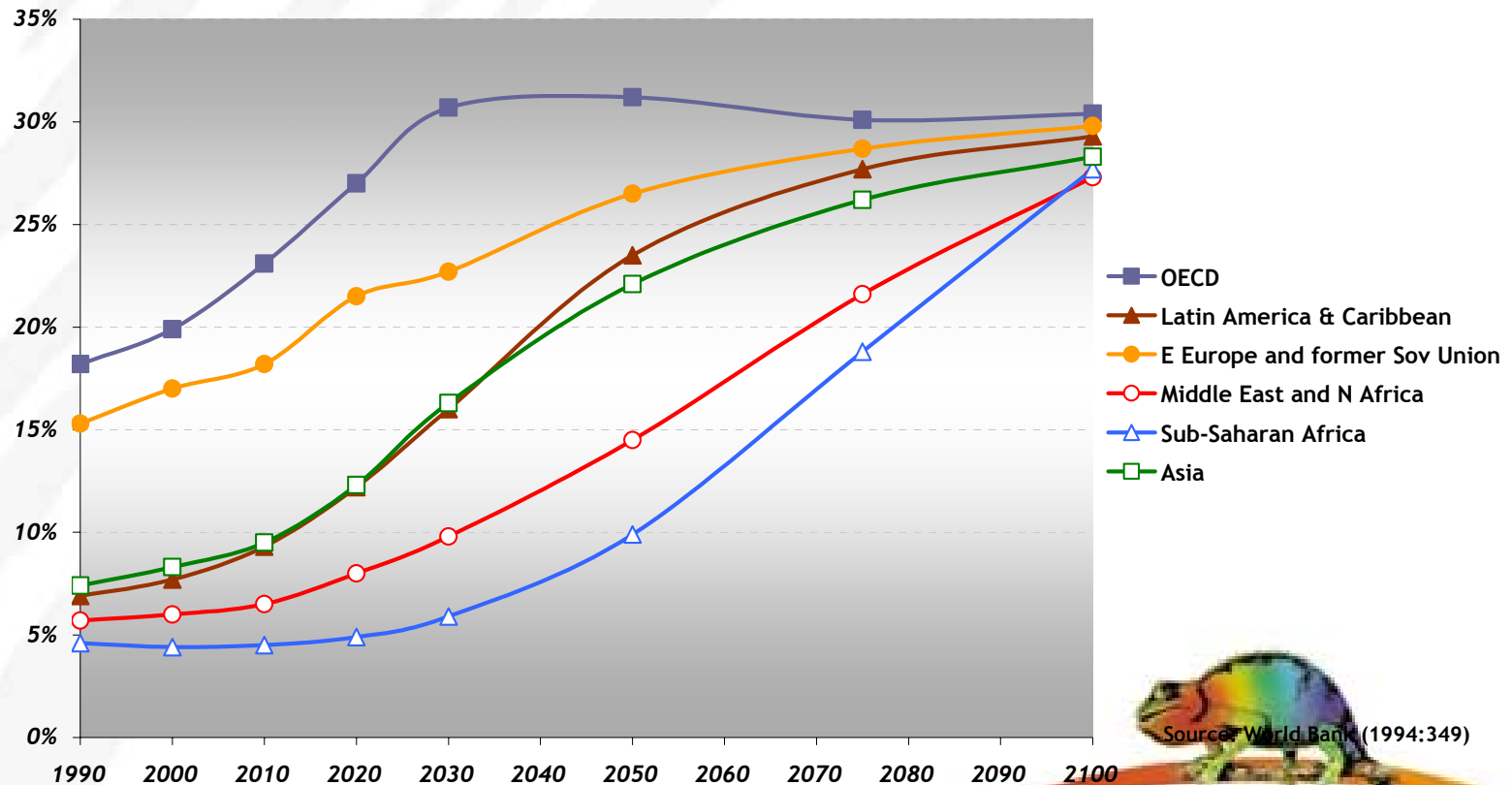


Figure 1



Measures of lifetime cost

- Reduction in yield
- Charge ratio



Measures of lifetime cost cont.

Individual assumptions

10 yrs	Term to retirement
10.00%	Contribution percentage
R 24,000	Starting salary
R 0	Starting fund level

Model assumptions

7.00%	Salary growth (annual)
10.00%	Investment return (annual)
5.00%	Inflation rate (annual)

Charges assumptions (actual)

R 0	Initial fixed
0.00%	Initial % of 1st year contribution
R 6.00	Regular fixed (monthly, 1st month onwards)
3.50%	Regular % of contribution (1st yr onwards)
2.00%	Regular % of accumulated fund
R 0	Final fixed
0.00%	Final % of accumulated fund
7.00%	Inflation of fixed deductions

Charges assumptions (shadow)

R 0	Initial fixed
0.00%	Initial % of 1st year contribution
R 0	Regular fixed (monthly, 1st month onwards)
0.00%	Regular % of contribution (1st yr onwards)
3.45%	Regular % of accumulated fund
R 0	Final fixed
0.00%	Final % of accumulated fund
7.00%	Inflation of fixed deductions

Ref: pages 48 - 51



Results: occupational funds

- Shortage of data
 - Information used from a variety of sources
 - Data often undisclosed
 - Heterogeneous measurement methods



Results: occupational funds

- Major cost areas
 - Asset management
 - Administration
 - “Other costs”

Ref: pages 72, 73



Results: occupational funds

- Estimated lifetime charges (core)
 - Charge ratio 17% - 27%
 - Reduction in yield 1.05% - 1.65%
- Evidence of a wide range
 - sensitive to size of fund
 - significant 'random' variation

Ref: page 84



Results: individual life RAs

- Estimated lifetime charges
 - Charge ratio 27% - 43%
 - Reduction in yield 1.50% - 2.85%
- Considerable variety between providers
 - levels
 - patterns

Ref: pages 90, 97



Results: mutual fund RAs

- Estimated lifetime charges
 - Charge ratio 22% - 33%
 - Reduction in yield 1.20% - 1.95%
- Much more competitive industry
 - transparency
 - consistency



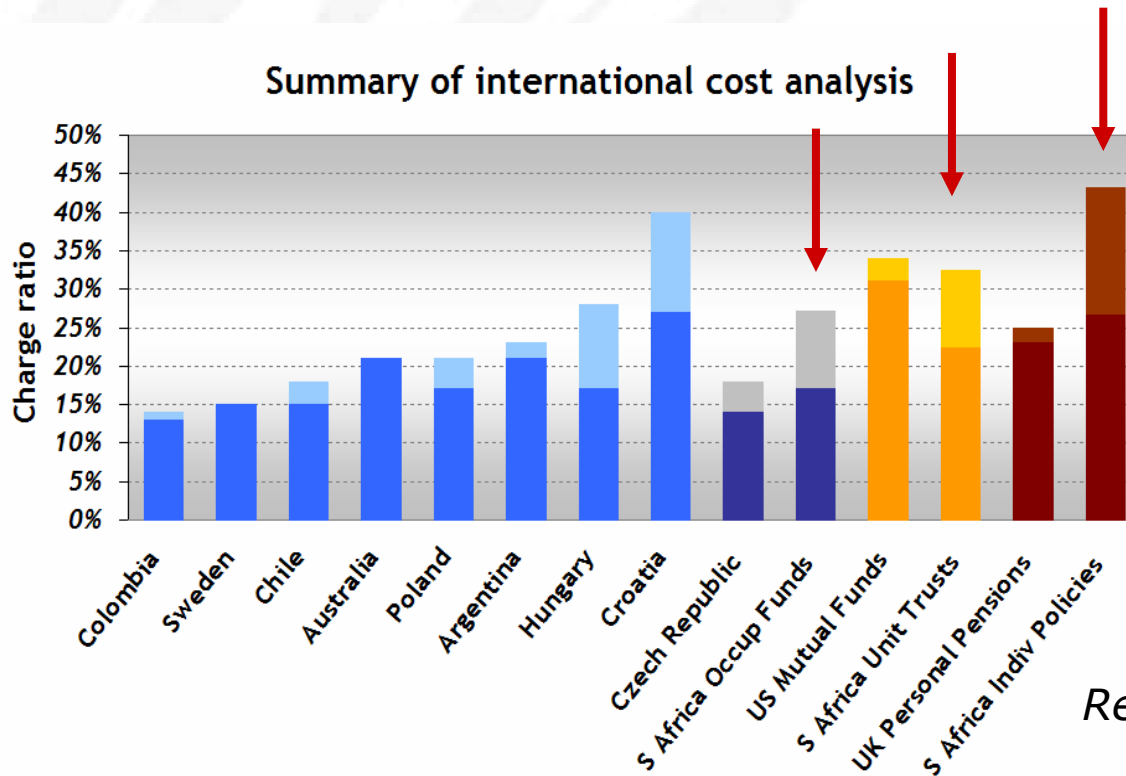
Results: mutual fund RAs cont.

- With some reservations on retirement saving

Ref: pages 103, 104



Results: comparison



Ref: pages 67 & 107

- Costs are on the high side...
... perhaps understandably





Policy implications

- Transparency ✓
 - consistent methodology
 - minimum disclosure
- Closure of channels x
 - each serves a purpose



Policy implications cont.

- Charge ceilings 
 - consider implications very carefully
- New class of products 
 - assess alternatives
 - in the context of South African needs

Ref: pages 111 - 115



Further research required

- Better data
- Deeper analysis
- Better comparisons
- Charges in the context of policy
- Lifetime saving patterns

Ref: pages 116 - 118



Final thoughts

- This is just a start
- Fees are not everything...
- ... but they make a substantial difference



Prototype cost analysis tool

MODEL FOR COMPARING RETIREMENT FUND CHARGES

The purpose of this sheet is to compare the charges of two retirement fund providers in a consistent manner. Inputs are represented by blue text, outputs by red. Notes are added to cells marked with small red triangles. Some providers charge in more than one way. Include all charges in the inputs section. Where faced with a charge structure not supported by this model (eg performance based fees) seek suitable independent advice.

Fund inputs	
Number of members	2,500
Total pensionable payroll	R 75.0 m
Assets	R 250.0 m
Contribution rate	12.00%

Providers	
Provider 1 name:	Alternative 1
Provider 2 name:	Alternative 2

Charge details: Alternative 1	
Rand per member per month	R 55.00
Percent of contributions	5.00%
Percent of payroll	0.00%
Percent of assets	0.00%

Charge details: Alternative 2	
Rand per member per month	R 25.00
Percent of contributions	0.00%
Percent of payroll	0.00%
Percent of assets	0.50%

Outputs: Alternative 1	
Equivalent total charge expressed either as:	
a percentage of contributions	22.77%
or alternatively as:	
a percentage of assets	0.80%

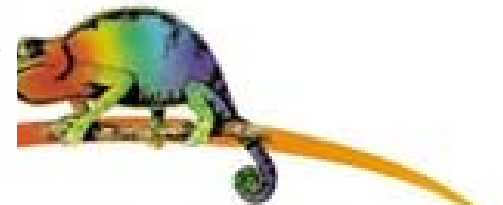
Outputs: Alternative 2	
Equivalent total charge expressed either as:	
a percentage of contributions	22.38%
or alternatively as:	
a percentage of assets	0.78%

This calculation requires a number of assumptions. Assets are assumed to grow evenly at a rate of 10% per year and cash inflows, excluding asset growth, is assumed to equate to cash outflows. Payroll grows evenly at a rate of 7% per year. The contribution rate and charges themselves are unchanged for the duration of the year. All charges are payable monthly at the end of the month.

Disclaimer: This is a simplistic model aimed at assisting trustees to compare the charges levied by different providers. The authors cannot accept any liability for the results produced or for the use to which these results are put. As with any comparison of two providers the fees are not the only criteria that should be taken into account. Other factors like the range of services provided and the quality of the service should also be considered.

Model produced by Rob Rusconi

Version 1.0 March 2005



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