

# Member Investment Choice

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## **Member Investment Choice**

"MEMBER INVESTMENT CHOICE"  
means that members are invited to choose from the pre-selected portfolios in which their retirement savings are to be invested, regardless of whether they have appropriate expertise for this purpose.



## **Member Investment Choice cont.**

Does this mean trustees are  
abandoning  
their responsibilities?



## **Member Investment Choice cont.**

- Offers members greater control over their own retirement provision
- Shifts responsibility from trustees to members
- Increases cost to members
- Members lack education to exercise choice



## **Member Investment Choice cont.**

- Impacts on the relevant need for:
  - technological capacity
  - investment products
  - communication / education



## **Trustees duties to:**

- Protect the interests of members
  - monitor investment performance
- Ensure that adequate information is communicated to members



## **Trustees duties cont.**

- **Code of Conduct for Trustees**

*"Where the investment function has been delegated, the Board should ensure that there are appropriate benchmarks for performance and that the risk profile of the investments matches the risk profile of the members..."*



## **Trustees duties cont.**

*"Where the ... investment functions of the fund are delegated, Board members remain responsible... The mandates... must clearly set out the delegated responsibilities and the rights of recourse... There must be a process of regular reporting..."*





# **Retirement Fund Reform discussion paper - National Treasury : Dec 2004**

- a significant number of funds have granted to their members "member investment choice"



## **Retirement Fund Reform discussion paper - National Treasury : Dec 2004 cont.**

- experience has shown most members are more conservative in their individual choice than trustees would have been if they had been making the choice on behalf of members – in long run this adversely affects adequacy of these members' retirement benefits



## **Retirement Fund Reform discussion paper - National Treasury : Dec 2004 cont.**

- BUT members with appropriate expertise can tailor their investment choice to their particular risk profile and age – enhancing adequacy of their retirement benefits



## **Retirement Fund Reform discussion paper - National Treasury : Dec 2004 cont.**

- Member investment choice involves additional costs - *"its introduction may be motivated more by those with a financial interest in expanding the services they offer to the funds than by those with members' interests at heart"*.



## **Costs of investment choice - Finance Portfolio Committee Retirement Funds Public Hearing**

*"The consequences of the trend to give maximum choice in build up to and in retirement were higher costs (and higher profits), prudential investment guidelines being ignored and financial advisers becoming quasi asset managers without the necessary skills."*

[Bruce Cameron  
(editor *Personal Finance*)]



**Willie Madisha : NEDLAC  
Trustee Conference Oct 2004  
challenged the industry to:**

- empower workers to control investments
- develop appropriate guidelines to ensure sustainable economic returns for members



**Willie Madisha : NEDLAC Trustee  
Conference Oct 2004 challenged the  
industry to: cont.**

- provide training for all trustees, with trustees representing the workers and asset managers being the “servants of trustees”



**National Treasury Task Team  
recommends that trustees be  
prohibited from granting  
investment choice to  
members unless:**

- Portfolios offered reflect investment strategies trustees feel appropriate re: likely profile of members and investment risks to which exposed





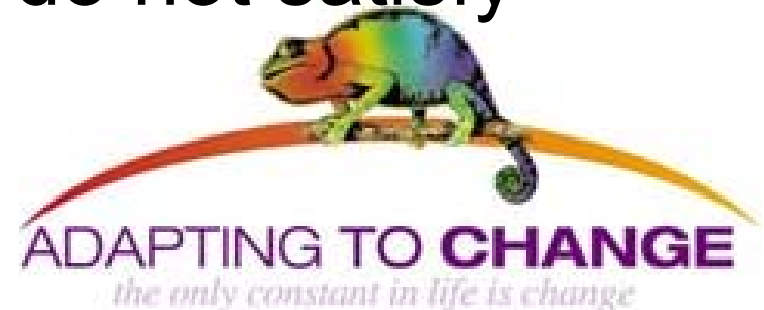
**National Treasury Task Team  
recommends that trustees be  
prohibited from granting investment  
choice to members unless: cont.**

- Investment strategies and risks of each portfolio explained to members
- Limited number of options (probably 3 – 5)
- Default option available



**National Treasury Task Team  
recommends that trustees be  
prohibited from granting investment  
choice to members unless: cont.**

- Trustees monitor performance of each investment portfolio against criteria determined in context of fund's investment strategy, and remove investment options that do not satisfy criteria



## **Practical advice: if member investment choice is offered -**

- wise to follow Treasury's recommendations
- members must be provided with clear education and advice on an on-going basis
- advice should be repeated
- should be check points at various stages of a member's life

