

It takes **17** muscles to smile

It takes **43** muscles to frown



Key Findings | Old Mutual Retirement Funds Survey 2010

The annual Old Mutual Retirement Funds Survey is undertaken with a view to gaining a greater understanding of the way in which retirement funds are managing their assets and liabilities against the current economic climate, and obtaining insight into the response of these funds, as well as other industry participants and stakeholders to the issues impacting on retirement funds and their members. Conducted by an independent research organisation, the Old Mutual Retirement Funds Survey aims to:

- Understand changes in the retirement fund market
- Evaluate retirement fund investment
- Gauge attitudes and needs with regard to preservation of exit benefits
- Assess the adequacy of benefits to provide for retirement
- Establish levels of confidence and trust in trustees
- Evaluate fund governance
- Establish views on umbrella funds
- Examine communication to members

Data for the 2010 survey was collected via a structured questionnaire administered via one-hour, face-to-face interviews with 130 respondents including representatives of 57 company-sponsored retirement funds, 8 union funds, 6 preservation funds and 35 participating employers in umbrella funds. 17 intermediaries and 7 representatives of media, government and regulatory bodies were also interviewed.

Industry Trends

Continuing trends from the previous survey	New trends in this survey	Emerging trends
<i>Continued growth in umbrella funds.</i>	<i>Retirement Fund Reform - particularly the NSSF.</i>	<i>A move to a later retirement age.</i>
<i>Stronger governance - especially for company-sponsored funds.</i>	<i>The impact of global recession and the current economic climate.</i>	<i>More funds offering member choice despite members not exercising the choice they already have.</i>
<i>Continued/increasing need for effective member communication and education.</i>		<i>A decrease in the number of company and union funds if NSSF is implemented.</i>

How the industry will need to change in the coming years:

When asked how they feel the retirement fund industry is likely to change in the coming years, most respondents indicated that there will be a need for trustees to become more accountable and knowledgeable while, at a member level, greater emphasis will need to be placed on education of members on preservation, investments and the value of retiring later. Other industry changes identified by respondents (in order of number of responses received) included:

- Greater priority on governance
- A move towards umbrella funds and a general consolidation of service providers
- Better service and more value and innovation from service providers
- Greater knowledge by, and qualification of, investment managers

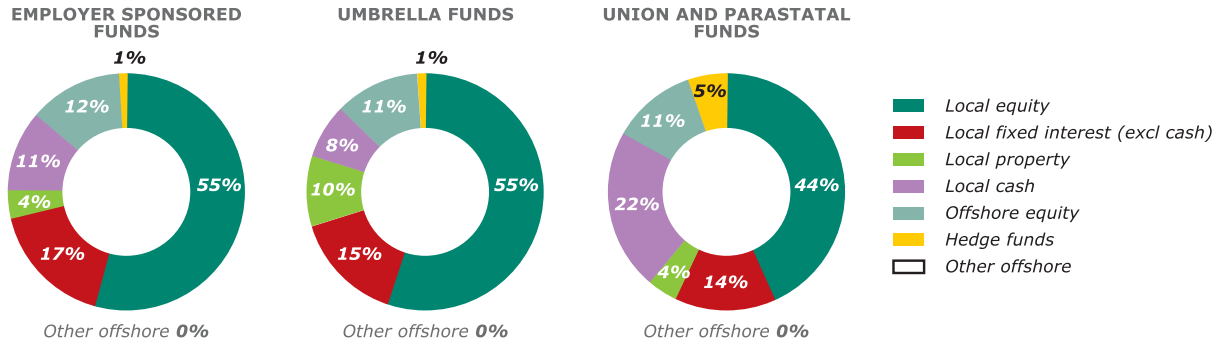
National Social Security Scheme (NSSF):

Respondents expressed mixed feelings about NSSF, but 63% of union fund representatives indicated that they felt positive about the scheme. While 71% of fund respondents feel that there should be an opt-out option when the scheme is implemented, most are in favour of compulsory preservation. Major concerns regarding the NSSF centre on the ability of government to implement and manage it effectively, the potential for corruption, and the possibility that it may deliver low returns for participants.

Investments

- Average fund investment returns in 2009 below 10% for the first time (8.4% for 2009).

Typical fund investment portfolio breakdown:



Old Mutual Comment:

"The disparities evidenced in the investment portfolio compositions outlined by respondents could indicate a lack of knowledge regarding the actual investment strategy of the funds concerned. Despite this, the results indicate that most company-sponsored and umbrella funds follow a balanced strategy, while the investment approach by union and parastatal funds is generally more conservative." Hugh Hacking: Umbrella Fund Product Manager, Old Mutual

- A third of respondents in company-sponsored and umbrella funds intend to change their investment strategy in the next 2-3 years.

How investment strategies are likely to change going forward (in order of number of responses):

Use of multi-managers/different portfolios
 Different asset/fund managers
 Preference for lower risk investments
 Move away from totally guaranteed funds
 Change by moving to umbrella funds

- Managing volatility is now top of mind with diversification becoming more important across all funds. Smoothed bonus vehicles are the preferred method.

Volatility Protection Strategies:

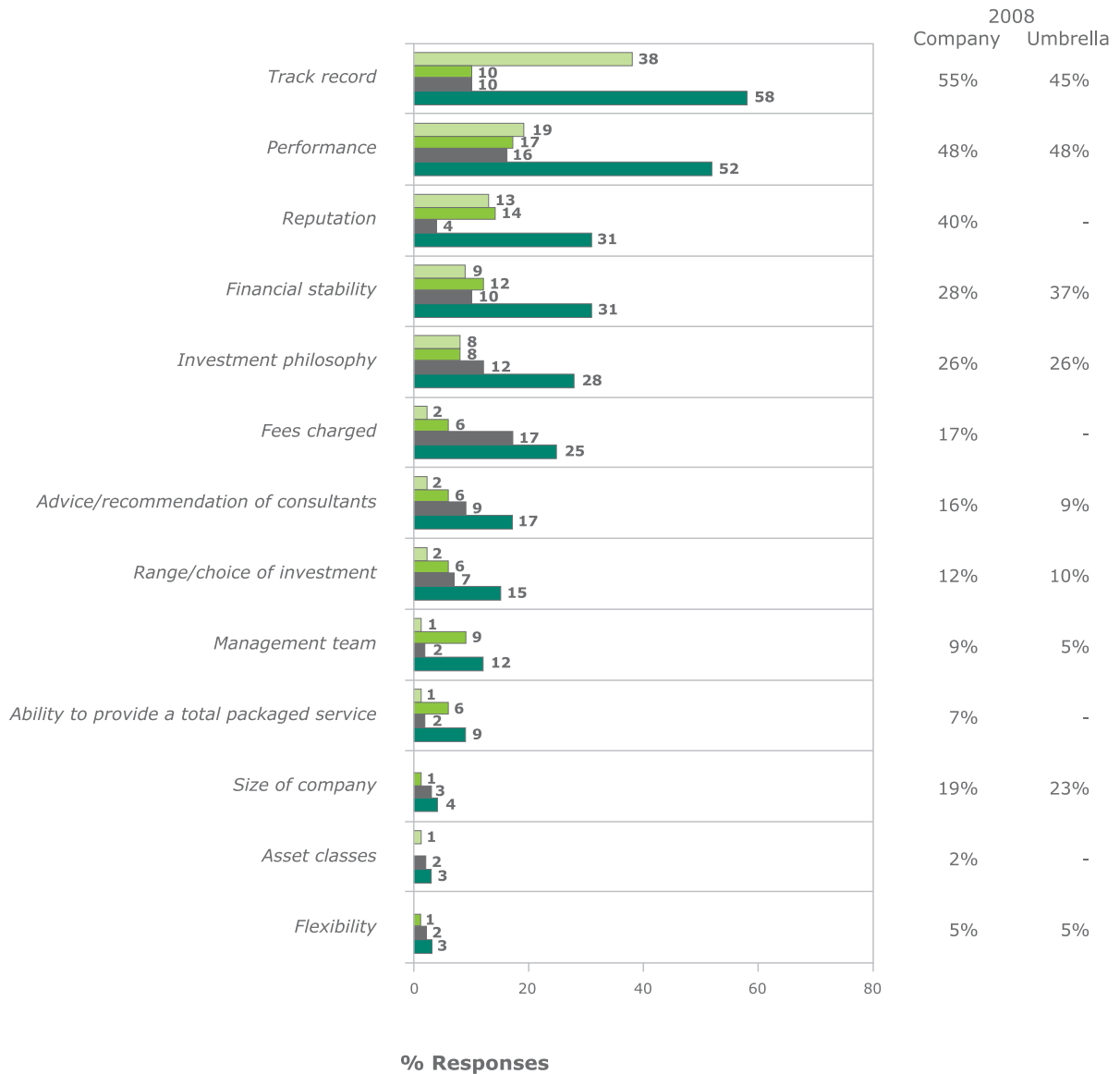
The primary investment vehicles and strategies identified by the various respondents as key elements in managing volatility going forward are as follows:

	Smoothed Bonus Products	Absolute Return Funds	Hedge with derivatives	Maintain reserves within limits	Diversification
Companies	15%	25%	17%	21%	43%
Umbrella Funds	43%	18%	7%	21%	29%
Unions	75%	50%	-	-	25%
Intermediaries	41%	35%	12%	18%	41%
Media/Govt/Regulatory bodies	29%	-	43%	29%	71%
Preservation Funds	17%	-	-	33%	33%

Criteria for selecting asset managers:

Track record and performance are the two criteria that received the highest number of mentions by respondents when selecting asset managers. These were followed by reputation, financial stability and investment philosophy. While not one of the primary selection criteria, the fees charged have risen in importance over previous years, while the size of the asset management company has dropped significantly in importance as one of the criteria for selecting an asset manager.

■ 1st Criteria ■ 2nd Criteria ■ 3rd Criteria ■ Total Mentions



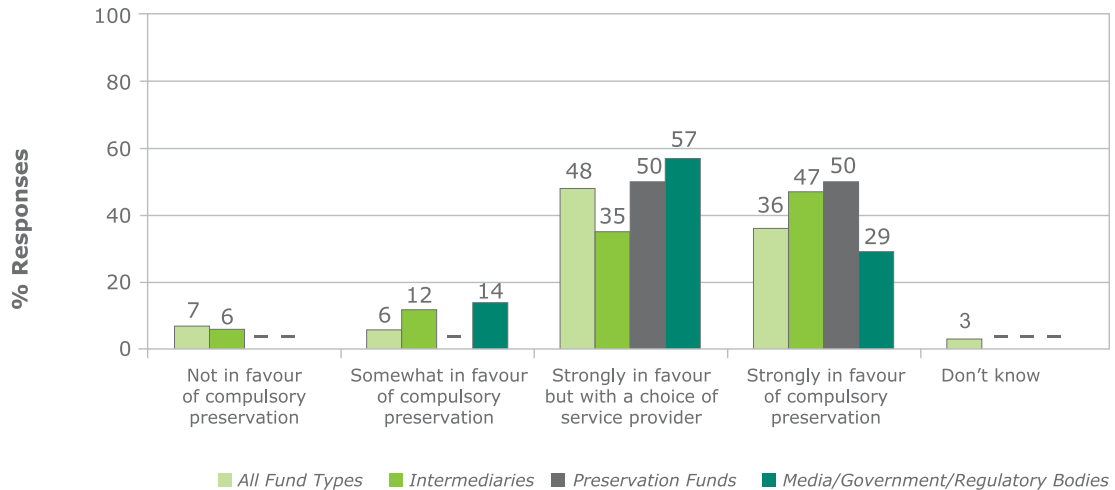
Confidence in Trustees

- Company, union and preservation fund trustees and principal officers *strongly* believe that members have confidence in their knowledge and abilities.
- Intermediaries, the media, industry bodies, and umbrella funds are less positive regarding member perceptions of trustees. 76% of respondents agree that the benefits of higher governance outweigh the additional costs (55% in 2008).

On average, men manage just over **2000** words per day

Preservation

- HR departments seen as significant influencers of preservation.
- Strong need to increase education on the importance of preservation and the options available.
- Respondents strongly in favour of compulsory preservation - but with a choice of service provider.



Adequacy of Benefits

- 43% of respondents believe members *think* they have enough money to retire.
- Only 26% actually experience this as being the case.
- Percentage of salary seen as key measure of retirement funding adequacy.
- 70% - 79% of salary regarded by highest number of respondents as adequate retirement projection.
- Companies and unions believe more members are retiring before 65 - often to start own businesses.

Umbrella Funds

- 97% of respondents who are now in umbrella funds felt their expectations had been met.
- Respondents generally agree that umbrella funds will continue to grow and that this is a positive trend.

Perceived Advantages of Umbrella Funds	Perceived Disadvantages of Umbrella Funds
Access to expertise and transfer of trustee responsibility	Loss of control
Safe and better returns	Potential to lose personal touch / disconnect from members and pensioners
Better administration	
Better governance	
Reduced costs	

The average person has over **1460** dreams a year

The average human blinks **25** times per minute

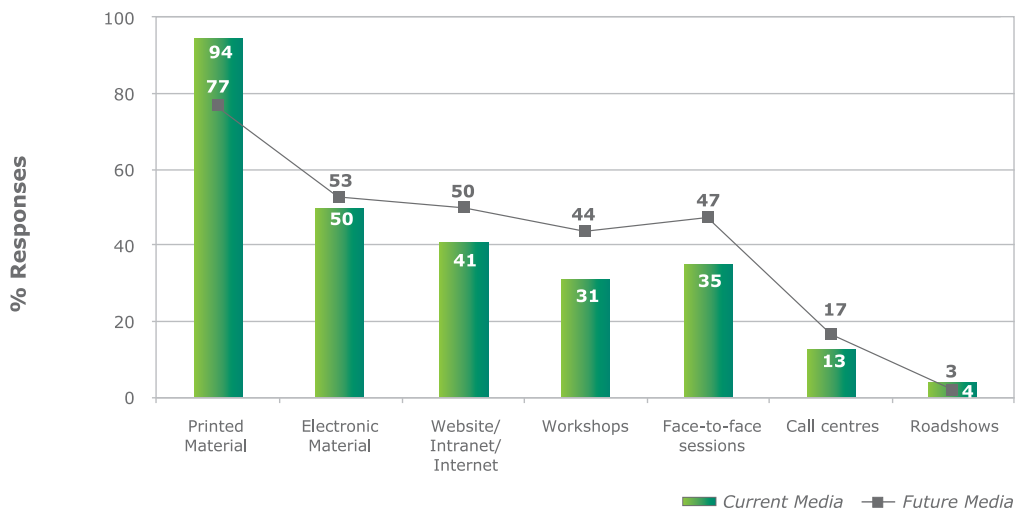
Respondents feel that umbrella funds will grow in the coming years because of:

- Specialist expertise
- Reduced risk and cost
- The impact of the NSSS
- Better returns
- The amalgamation of company funds

Member Communication

- Despite continued emphasis on member communication, respondents feel members have little understanding, and often take no action based on communication received.
- Only 17% believe members have a good understanding of the communication.
- Only 13% believe members act on the information they receive.
- Printed material remains the dominant communication medium, but members desire more personal communication through workshops and one-on-one sessions.

Primary Communications Media:



- Definite need for umbrella and preservation funds to become more proactive in effective communication.

Member Level Investment Choice (MLIC)

- More company funds introduced MLIC in 2009 (up to 48% in 2009 from 36% in 2008). Another 10% intend to introduce MLIC in next year.
- 68% of members in all types of funds still choose the default option for investments.
- Life-stage mandates look to become popular investment choice in company and umbrella funds in the next 12 months.

For more information on the Old Mutual Retirement Funds Survey or other research conducted by Old Mutual, visit www.oldmutual.co.za/RetirementFundsSurvey.