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Sanlam Benchmark **2022**

ENVISION A NEW TOMORROW

Healthcare.
Wealthcare.
Selfcare.

Insights Report

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FOREWORD

Kanyisa Mkhize
Chief Executive Officer:
Sanlam Corporate

ENVISION A NEW TOMORROW

Healthcare.
Wealthcare.
Selfcare.

Reaching your full potential and pursuing a life of personal excellence in times of uncertainty

As I reflect on the theme of the 2022 Sanlam Benchmark research, I am reminded of the science – and art – of personal excellence found within the practices of Neuro-linguistic Programming (NLP).

An approach to personal development, NLP ultimately speaks to the difference between excellence and average. As we strive for excellence, we make sense of information and understand it before acting on it. Then, using words, we communicate our understanding and actions. This is what separates actions that produce the mere average, from those that produce the truly excellent outputs.

NLP strikes a chord with me in its attitude of acting guided by curiosity and sense making, rather than assumption. It is that curiosity, the desire to understand the employee benefits industry and context we are in, which informs the actions we need to take as we envision a new tomorrow.

Much like NLP, the Sanlam Benchmark research is a system of interdependent studies underpinned by a curiosity about and fascination with consumer behaviour and decision making. This curiosity is essential as we aim to capture the burning issues facing retirement funds, current clients and retirees in the country.

If there is a difference between the Sanlam Benchmark research and the principles of NLP, it is that our research is premised on several assumptions. These assumptions inform our analytical process as we seek to understand individual consumer needs and circumstances. The aim of the research, ultimately, is to identify and focus on those attributes that could lead to a life of personal excellence rather than produce merely average outcomes.

One of the key insights to come out of the 2022 research is that in the wake of the uncertainty of the COVID-19 pandemic job security goes hand in hand with holistic care. The sudden loss of jobs, or even just the fear of losing incomes, has put an existential strain on the mental health of South Africa.

Healthcare

"It is health that is the real wealth, and not pieces of gold and silver."

- Mahatma Gandhi

As employers take the holistic needs of employees into consideration, employee benefits will increasingly marry healthcare, wealthcare and selfcare. Health – both physical and mental – is taking centre stage, particularly within the context of a tough economic environment.

While there are visible shifts in the Employer Value Proposition (EVP) and how employees view work in their lives, both employers and employees have ideas in mind about the kind of holistic benefits needed in this post-pandemic age.

Let's be clear: The 'Great Resignation' of the US and parts of Europe is not really a South African phenomenon. Quite the contrary. Having a job and an income has become a new asset class in South Africa. Many households experienced multiple financial impacts of the pandemic through either reduced income, retrenchment, forced unpaid leave or a sabbatical, and loss of a family member and their income.

Understandably, holding on to a job holds immense value. However, as much as employees value their jobs, they expect more from it in terms of ensuring their holistic well-being. In response, significant numbers of respondents – among both employer funds and umbrella funds – indicated that their value proposition takes a holistic view of the employee as a professional and family person and offers a wide range of financial and healthcare benefits.

Wealthcare

"An investment in knowledge pays the best interest."

- Benjamin Franklin

The welfare of our environment is equally important for social and economic well-being. Hence, sustainability is slowly becoming a priority, given that the retirement fund industry has a key role to play in driving environmental, social and governance (ESG) concerns. Retirement fund assets pack a substantial financial punch, as globally they make up most of the assets in South Africa but are exposed to ESG risks such as those posed by climate change and inequality. The urgency to put in place measures to reduce and manage these risks cannot be overstated.

The 2022 research explores the extent to which South African retirement funds have incorporated ESG strategies in their investment mandates. After all, the primary goal of retirement funds remains to provide members with secure future incomes. And retirement funds are well positioned to actively engage on ESG issues and set the tone for a transition to a low-carbon, climate-resilient economy.

Retirement reform and legislation also continue to inform and shape the future direction of the industry. Among the most significant regulations that have been in the headlines over the past year have been the National Treasury's proposed two-pot system, the tightening of the governance of umbrella funds, and changes to the Policyholder Protection Rules. Our research highlights some of the polarised views consumers have regarding the long-term financial impact of the proposed two-pot system. We observe that at least one third of employees are unfamiliar with the employee benefits provided by their employers.

This is worrying, as NLP highlights that a lack of knowledge and understanding prevents individuals from reaching their full potential and pursuing a life of personal excellence. It is through knowledge and understanding that people are empowered to adopt the kinds of financial habits needed to enable them to retire with confidence.

Indeed, several Umbrella Fund sponsors in the research recognised that improving communication was critical for imparting knowledge and understanding to ensure positive retirement outcomes for members. In this regard, it is also encouraging to find that employees are seeking to improve their understanding of the benefits available to them. More and more members are engaging with their retirement benefits through digital platforms.

Selfcare

"All that we are is the result of what we have thought. The mind is everything. What we think we become."

- Buddha

If our value proposition is to offer an integrated holistic solution to retirement products, then selfcare refers to the need to understand and appreciate that individuals place their physical, emotional, social, and spiritual well-being at the centre of all life decisions. The pandemic has brought about new way of work, and a new perspective on life.

Selfcare can also be aided by instilling confidence in the knowledge and understanding of information presented to us. When people feel that they can make sense of information, they have more confidence to act on it.

With the past two years serving as painful reminders of the interconnectedness between wealthcare, healthcare (physical and mental) and selfcare, in our pursuit of wealthcare we must be guided by the need for greater humanity. The pursuit of personal excellence, rather than just the average, for our members has always been a byword for Sanlam. That principle remains unchanged even as we reimagine a new tomorrow out of what has come before. Just as our members face a reshaping of the world and new ways of work, so too the context has changed for us. We understand, as employers do, that retirement now means more than just having the necessary financial resources. Now more than ever, wealthcare is intricately tied to healthcare and selfcare in this new tomorrow.

We hope that in going through the findings of our 2022 Sanlam Benchmark research you will see that personal excellence remains our rallying cry.

As always, my team has unpacked this year's research with great curiosity and a sense of exploration. I trust that you will find their insights valuable as you navigate the uncertain times of a new way of work and living. At Sanlam we remain committed to members' journey to retire with confidence, while remaining resilient in the face of uncertainty.

UNION SUMMARY 2017-2022: LOOKING AT FIVE-YEAR AVERAGES

Xolisa Dhlamini
Managing Executive
Sanlam Corporate: Distribution

General Employer Statistics

We now have nine years of data to analyse since we first included a subset of 10 union funds in the stand-alone survey. This year these 10 funds represent a total of R57,2 billion in assets in respect of 635 691 members. Average asset size is R5,72 billion this year (with a five-year average of R7,1 billion in 2017-2022). The year-on-year participation of the union sample remains impressive at 70%.

Membership sizes have fluctuated over the past five years, averaging around 64 000 members.

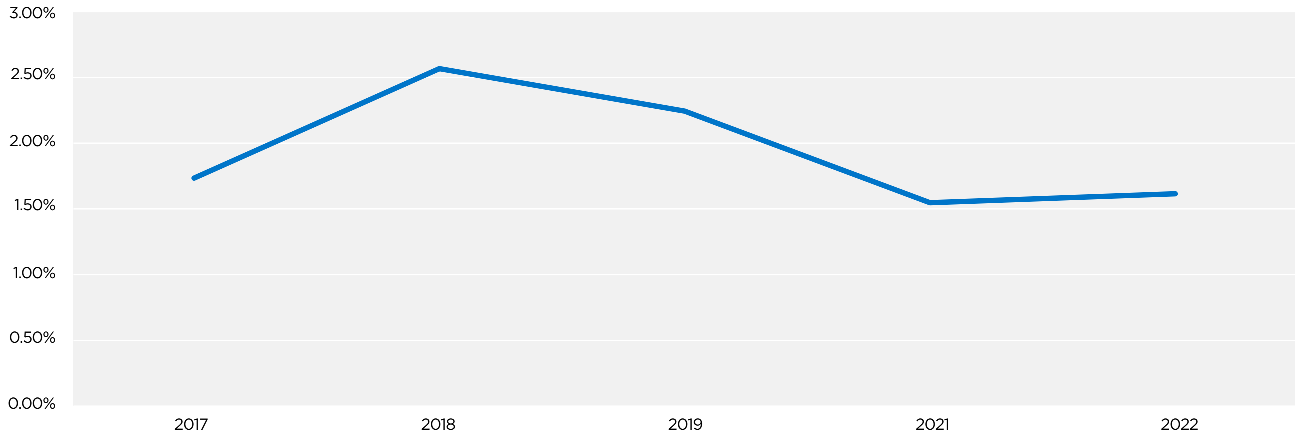
Contributions

Contribution levels have remained topical in the retirement fund industry over the past two years, with many employers opting to suspend retirement contributions. In the union space, employer contributions have hovered around the 8% to 9% range. Over the past five years the lowest contribution rate was 8,2% **and this year we saw the employer contribution rate peaking at 9,84%**, with a five-year average of 9,4%.

Average member contribution rates have been declining steadily since 2017. Despite the five-year average edging closer to 7%, **this year the lowest member contribution level of 6,29% was recorded –** dropping from 7,35% over the past five years.

Contribution levels are naturally eroded by the cost of providing benefits and administering a fund. The cost of the pure administration fee of the fund is expressed either as fixed cost per member per month (inclusive of VAT), as a percentage of salary or a combination of both. For those funds that calculate cost as a fixed rand amount per member per month, this expense has steadily increased from R27.38 to R47.87, with the average over five years just missing the R40 mark. **This year we also recorded the highest rate of R47.87 per member per month**.

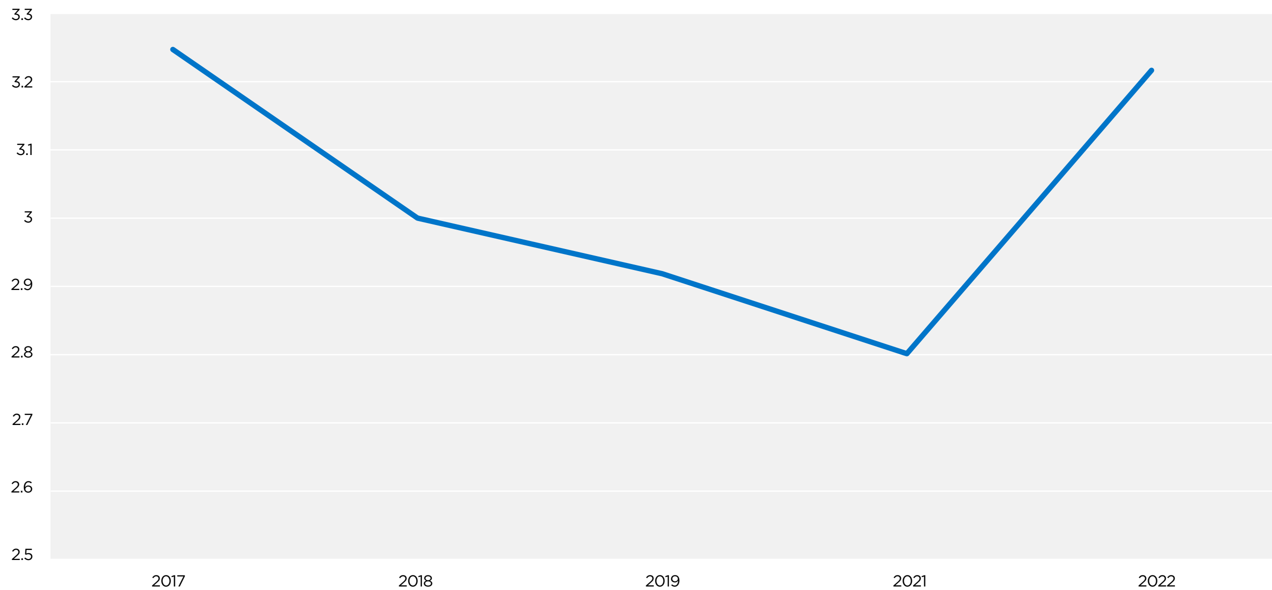
Union funds either provide benefits under their fund on a combination of approved and unapproved benefits. The total cost of death benefits/life cover under a fund has shifted since 2017, with five-year average of 1,96% of salaries.



Only one union fund offers a benefit on an unapproved basis. All funds offer a lump-sum disability benefit at an average cost of 0,81% of salaries, and the total cost of disability income benefits (PHI) has increased year on year from 1,25% (2021) to 1,33% (2022).

Risk Benefits

Group life cover has remained consistent at the average 3 x annual salary, taking a slight dip in 2021. This year GLA multiples have reverted to 2017 levels.

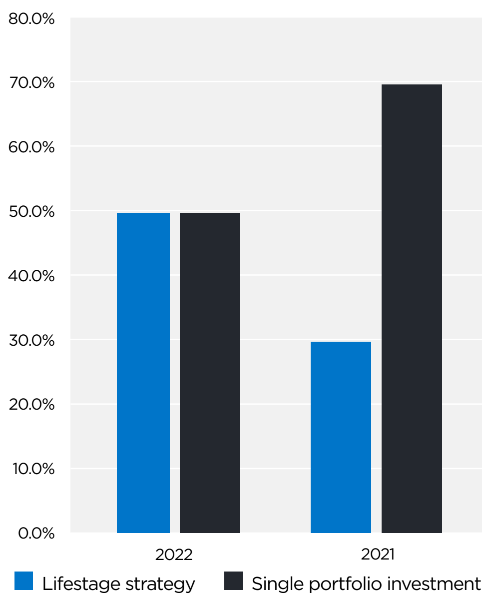


With 7 out of 10 union funds offering a lump-sum disability benefit, the average benefit payable has increased year on year from 2,6 in 2021 to 3 times annual salary in 2022. Half of the funds provide an income disability benefit of between 75% and 79% of annual salary. Four out of five funds confirmed that they do have nomination forms in place for all employees in respect of unapproved benefits. Only one in ten funds offers flexible risk benefits.

Investments

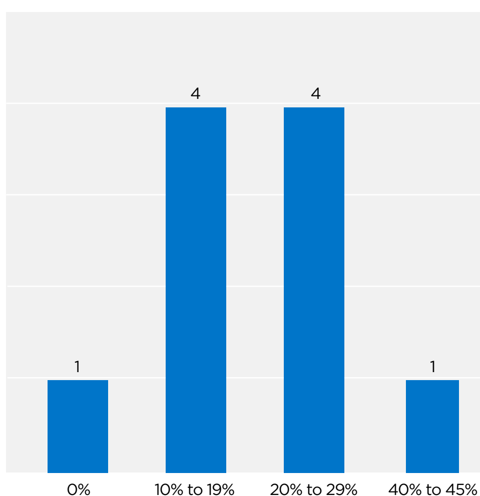
Most funds (7 out of 10) described their fund's investment strategy as having a trustee choice, i.e. there is no choice for members, with only 2 out of 10 funds offering a default investment portfolio plus member choice. There was an equal split in funds with a Lifestage strategy as part of the Default portfolio.

Is the investment portfolio of the Trustees choice/Default a lifestage strategy (with portfolio transitioning) or a single portfolio investment?



The more popular structure of the trustee choice/default is multi-management for 8 out of 10 funds. On average, 20% of union funds' assets are invested offshore.

Offshore investments



Trustees indicated that the main criteria their fund uses when deciding where assets are placed are the following:

	2022
Base: All Respondents	10
Investment performance versus index benchmark	**7**
Fees	**7**
Level of risk associated with the investment	**7**
Investment philosophy	**6**
Ethically sound company	**5**
Knowledge of the manager re philosophy	3
ESG / Impact capability considerations	3
Transformation / BEE credentials	3
Operational strength	3
Intellectual capital	2
Company profile	1
Strategic business relationships	1
Other	1
	49
Table size	**490,0%**

When asked against which benchmark funds assess an asset manager's performance, trustees cited the following attributes:

	2022	2021	2019
Base: All Respondents	10	10	10
CPI-related	5	5	6
Indices / composite portfolio benchmark	2	3	-
Indices / composite index	-	-	3
Industry survey / peer group	1	1	0
Combination of benchmarks	2	0	1
Other	-	1	-
Table Size	**10**	**10**	**10**
	100,0%	**100,0%**	**100,0%**

Investment in Alternative asset classes

Four out of ten union funds invest in segregated mandates or a combination of pooled and segregated mandates. The funds that invest in segregated mandates indicated that they will invest approximately 21% of their assets in infrastructure investments as now made available by the proposed changes to Regulation 28. This is significantly up from the 6% indicated in 2021, with six funds responding that they would be in favour of having their asset manager invest in alternative asset classes on the fund's behalf over the next three years. Impact investment type portfolios have a lower exposure, averaging 7,57% (2022) and 3,57% (2021).

The following themes are the three priority investment decisions based on a fund's sustainability and impact objectives in 2022:

- Job creation
- Economic growth
- Education

Thinking specifically about climate change in the context of their fund's investment strategy, some described its importance in their investment strategy **two years ago** as either:

A significant factor in our investment policy	3
Not a significant factor in our investment policy	4
Not part of our investment policy at all	3

And thinking specifically about climate change in the context of the fund's investment strategy and **its importance today:**

At the centre of our invest-ment policy	1
A significant factor in our investment policy	7
Not a significant factor in our investment policy	2

Current exposure to ESG-type portfolios year on year was slightly down from 9,38% (2021) to 7,67% (2022). Only 2 out of 10 funds are wholeheartedly ESG investments and 7 out of 10 funds are satisfied with the current ESG reporting typically received from the asset managers.

	2022	2021
Base: All Respondents	10	10
0%	1	1
1% - 5%	2	-
6% - 10%	3	-
1% - 10%	-	5
11% - 15%	3	-
More than 20%	0	2
Not sure	1	2
Mean	**7.67**	**9.38**

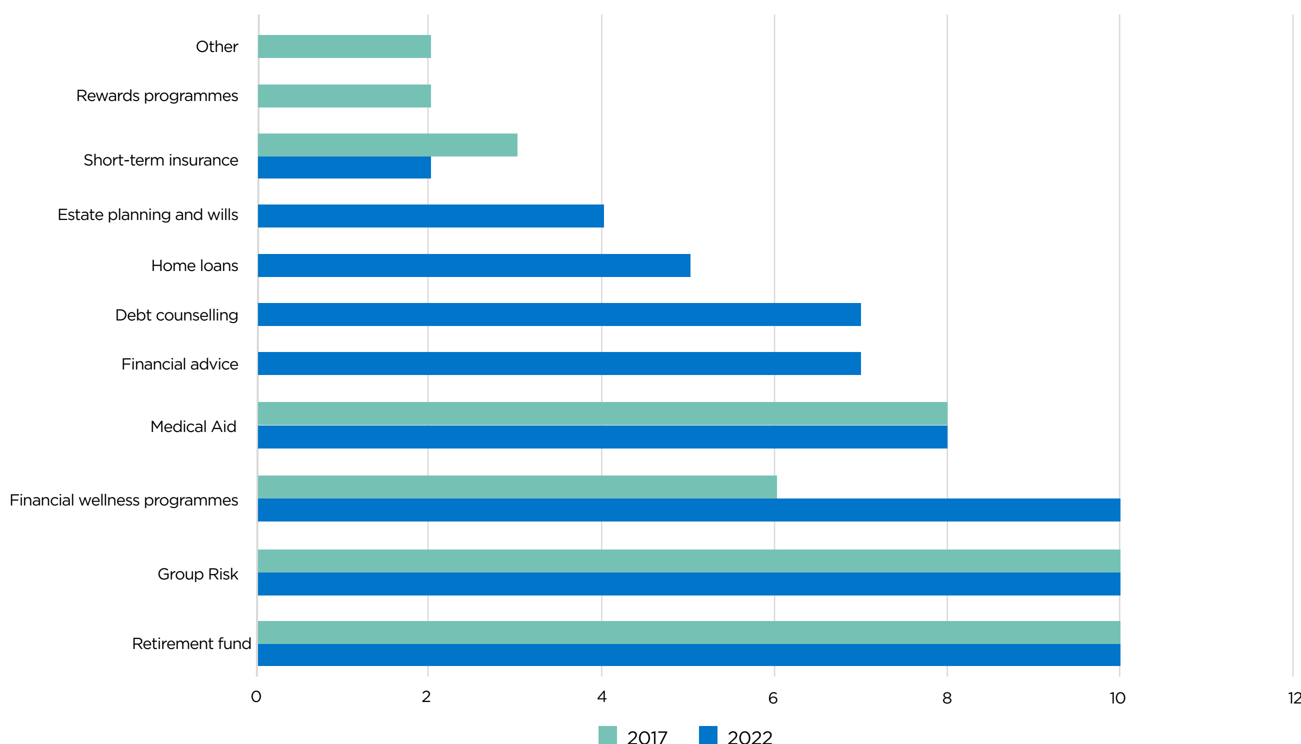
Healthcare integration

Employee productivity can be addressed holistically through various health and financial wellness initiatives. Some of the strategies of the union funds' employers are listed below.

	2022	2021
Base: All Respondents	10	10
Does not take responsibility for an employee's health but adheres to legal requirements in this regard	3	2
The employer selects wellness / health programmes independent of each other	3	2
Believes a holistic integrated health and financial wellness programme delivers higher productivity and staff happiness	2	4
The employer integrates some programmes but manages others independently	0	1
Not sure	2	1
Table Size	**10**	**10**
	100,0%	**100,0%**

Holistic Integrated Value Propositions Delivered Through Strategic, Product and Engagement Partnerships

This year, union funds included a number of financial related options that an ideal suite of benefits and services should include for all employees.



Cybersecurity and Cyber Resilience Requirements

There is a great deal of concern about the threat of cyber risk.

How do you evaluate the service provider's ability to mitigate cybercrime when appointing an administrator?

	2022
Base: All Respondents	10
We conduct due diligence at the administrator's office	8
Administrators provide us with a copy of their cyber-security policy	5
We have a standard checklist which they must complete	4
We have included questions in the tender documents which deal with cyber security	1
	18

Respondents of the union funds have on average performed the duties of a Principal Officer or Trustee of a retirement fund for more than 10 years. Four out of the ten are either independent Principal Officers or Trustees, with a strong skew towards male fund officers.

UNFOLDING A NEW TOMORROW THROUGH RESEARCH AND INSIGHTS

Rigitte van Zyl
Chief Client Officer
Sanlam Corporate
and
Lorraine Mekwa
Business Development Manager
Sanlam Corporate: Investments

When the whole is greater than the sum of the parts members can retire with confidence

Over the past two years we have experienced loss in all forms, and we are moving through it into a 'new' tomorrow. New ways of work, new ways of living and new perspectives on life and what is important to us. What emerged at the heart of what we experienced was how important caring has become. As individuals we care about our health, our finances and wealth and we place emphasis on care for our loved ones and ourselves.

This year the Sanlam Benchmark research considers this new tomorrow in the context of the employee benefits industry. Our research evolves in response to the changing needs of the industry and the people whom we serve. The research continues to review trends in our core tracking studies with stand-alone retirement funds and participating employers in umbrella funds. We expanded the research programme to include insights from employee benefits consultants, asset consultants, healthcare brokers and commercial umbrella fund sponsors. To complete the set of integrated studies, we included consumer/member perceptions on the importance of employee benefits and which services they value the most.

We succeeded in having 785 online conversations with our research participants. We used both quantitative and qualitative data collection methods. We are very grateful to all the participants that gave us their time and input and to have a year-on-year survey participation rate of 61% of stand-alone funds and 57% of umbrella sub-funds. Having said that, year-on-year participation is declining as we observe the continued conversion to umbrella fund platforms.

One respondent who participated in the stand-alone survey in 2021 was interviewed this year as part of the umbrella fund survey.

The COVID pandemic has taught us the fragile balance between lives and livelihood. The lockdown measures that were implemented, while necessary to preserve human life and health, had profound economic implications for all sectors of the economy. From research it has become

evident that members' needs and expectations have shifted to enable the balance between healthcare, wealthcare and selfcare.

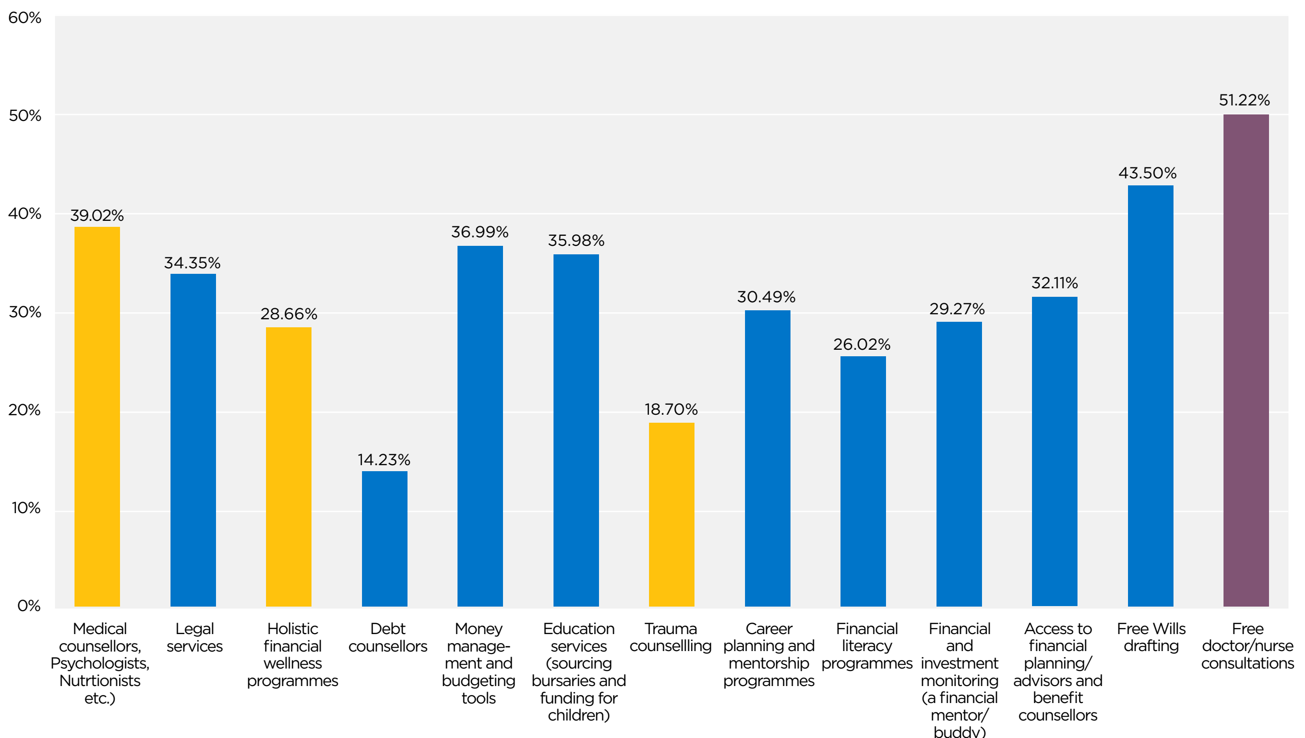
Consumers shared their views on their experiences where:

- 73% have experienced loss of some or all income due to unemployment.
- 18% indicated that they have been in their job for less than 2 years, 21% between 3 and 5 years and 61% for more than 6 years.
- 59% have a will in place, with 37% having reviewed it in the past year and 48% having reviewed it in the last 1-5 years.
- 58% of consumers indicated that they have been working remotely since March 2020, with almost 10% indicating that they are not returning to the office.
- There was mixed feedback on how employer policies were adjusted to new ways of work.
- Many (73%) consumers are not thinking of resigning in the next two years.

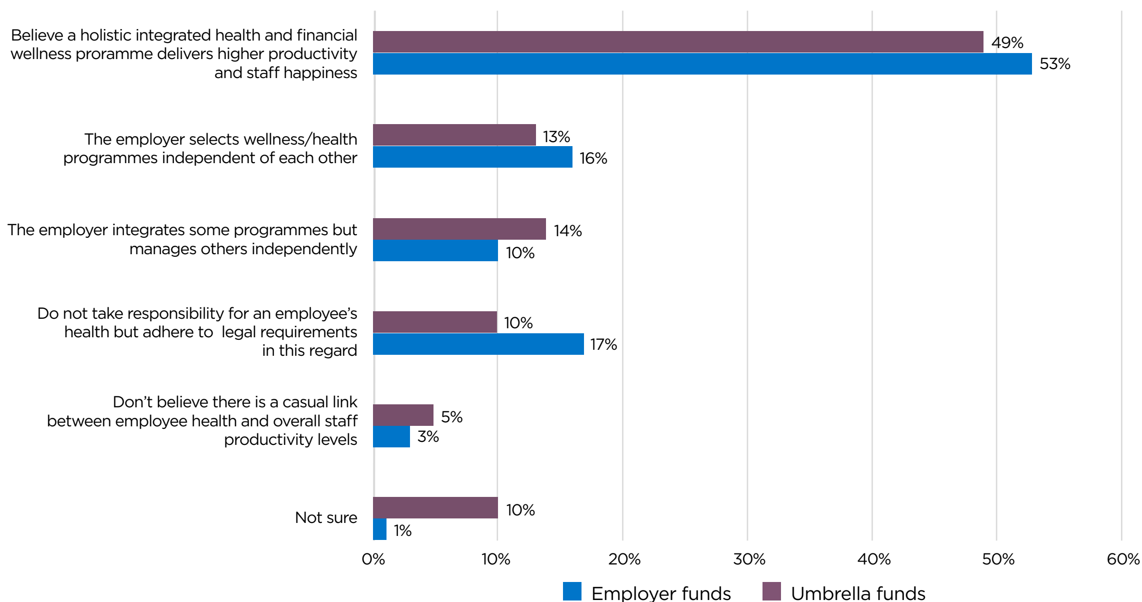
Considering that South Africa's unemployment rates peaked at 34,5% by 1Q 2022, the need for job security and having a job is an asset.

Selfcare is shaping the new tomorrow to fit our changing needs

Even though most of us would like to move on from the pandemic for various reasons, we cannot ignore the reality and the impact it has had in shaping and unfolding our new tomorrow. One of the key needs and themes that emerged from the research is the provision of a more holistic employee value proposition (EVP). Consumers listed the following needs to be addressed in the EVP:



This sentiment of having more integrated strategies is shared by participating employers in umbrella funds and stand-alone funds. There has been a significant increase in the number of umbrella sub-funds that now believe in the benefits of having a holistic integrated health and financial wellness programme. This figure has increased from 36% (2021) to 53% (2022).



From the health consultant's perspective, employers often ask about medical scheme and GAP cover. Some clients are looking for mental health solutions, employee assistance programmes (EAP) and financial wellness that goes beyond wellness but addresses social and economic issues employees are facing.

The impact of wellness programmes on employees' physical, social and mental health is thought to be well understood, with 11 healthcare brokers believing that at least half of employers understand its impact.

This is very much aligned with The AON benefits and Trends Survey in the UK, where 88% and 87% of corporate clients indicated that they were planning to put emphasis on Health and Well-being and mental health respectively in the next 12-24 months.

Review of benefits

Consumers are reviewing their finances and ultimately how they engage with general finance, insurance and employee benefits.

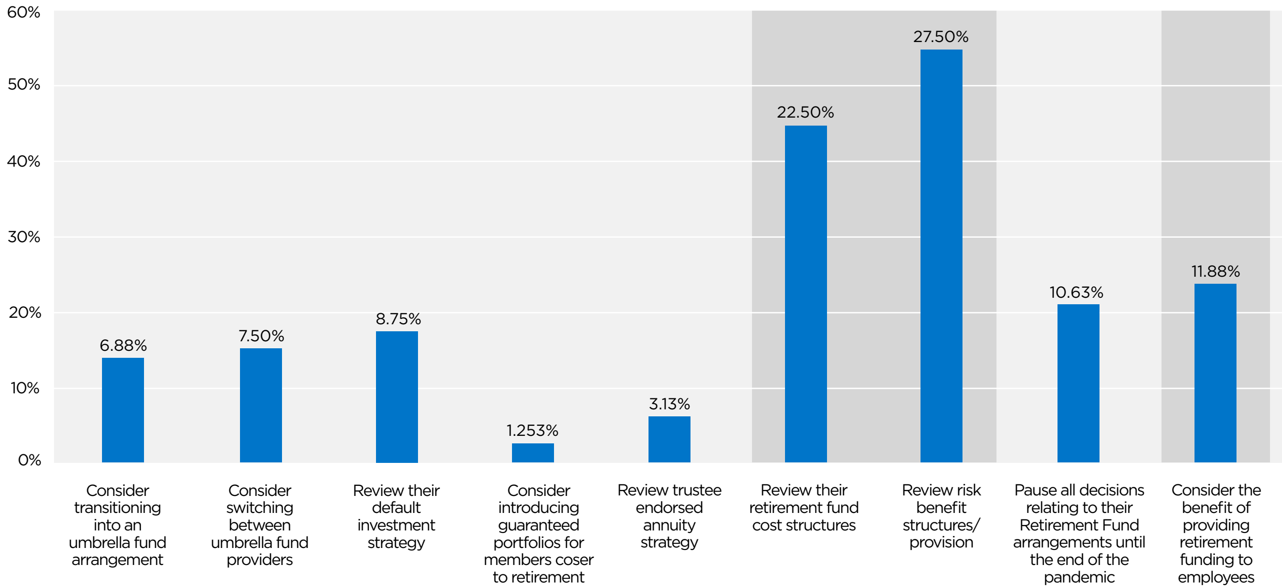
Main shifts in consumer behaviour:

- Consumers are mostly living more frugally, cutting out luxuries (58%)
- Saving money that would have been spent on commuting, lunch at office, take-out (31%)
- Reducing debt e.g. home loan, car payments, credit/store cards (30%)
- Reviewing policies (i.e. life, funeral and retirement) (27%)

Consumers could select more than one option.

On the negative end of the scale, some desperate strategies to have more disposable income included:

- Accessing long-term investments to cover living expenses (18,56%)
- Taking out a mortgage loan, refinancing a home, taking on additional debt (increased credit limits) (14,37%)
- Reducing my life, disability and funeral cover with my employer/ retirement fund (8,83%)



This highlights the significant **cost pressures** businesses are under and the tough discussions that are under way. The annual review of benefits is an industry norm. From a Sanlam perspective, we have experienced that market testing is on the increase; however, there is a definite pause in the decision to move business, resulting in an extended period of review.

Wealthcare is preserving assets through careful manager selection

The more prominent factors that are considered when investment managers are selected, include investment performance against the benchmark for 80% of stand-alone funds and union funds), and investment philosophy (74%) and fees (63%) for stand-alone funds.

Interestingly, ESG (26%) and Black Economic Empowerment (BEE) (21,4%) were cited as more important than brand reputation (15,5%) as well as company profile of the investment manager (10,7%) when funds consider where assets are to be placed. Sustainability sits firmly on the agenda of funds, whether it's through ESG or BEE considerations. Asset consultants prioritised transformation over fees and the level of risk associated with the investment. Asset consultants and umbrella fund sponsors agree on investment performance vs benchmark, fees and investment philosophy being amongst the most important criteria when selecting an asset manager. They also view transformation and BEE credentials as being among the top five selection criterion.

While sustainability is an important criterion to make it onto the fund manager selection list, it is not a critical consideration when managers are terminated. Poor performance relative to peers remains the main reason why stand-alone funds would terminate managers (58%). Employer funds place more importance on performance relative to peers than is reported by either asset consultants or umbrella fund sponsors.

Sustainability is linked to social benefits that emanate from impact investing. As sustainability gains prominence, so too will impact investing. Current exposure reveals that while 23% of respondents in 2021 did not have any impact assets in their portfolio, this has significantly decreased to 8% who do not have any allocation to impact assets in 2022.

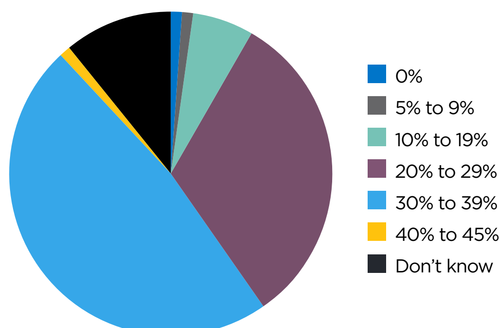
However, we noted that the awareness of impact-type portfolios was still quite low and there might be an opportunity to raise more awareness about impact-type products in the market.

Given the sustained weak South African economic environment, when pressed on the exact impact themes that funds are looking for, increasing the productivity of South Africans was key to funds, followed by economic growth, education and job creation.

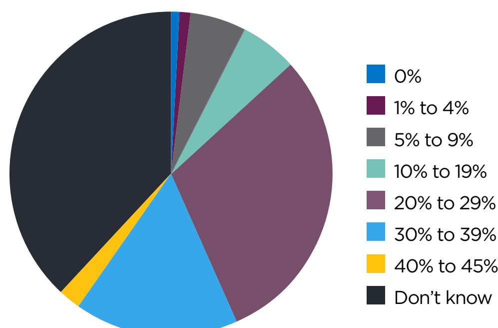
Offshore allocations

The Benchmark research explored funds' attitudes towards offshore allocations due to ongoing changes in regulation that pertains to offshore allocation limits and relaxation.

Stand-alone offshore allocations



Umbrella funds offshore allocations



In varying degrees, funds have always used their offshore allocation to diversify from the concentrated local markets and to lessen exposure to the local political risk that has at time raised its head.

But recently the discourse around offshore allocations has changed somewhat.

From the respondents we learnt that stand-alone funds are currently using the offshore allocations more than umbrella funds. Just under 80% of stand-alone funds have 20%-40% allocated out of the country, while only 48% umbrella funds have the same allocations and only 40% of union funds have a 20-40% offshore allocation. A large number of umbrella fund respondents (35%) stated they could not confirm details regarding this allocation.

It will be interesting to see how these dynamics change with the regulation changes. More asset consultants (54%) believed aggressive portfolios should fully utilise the new limits than those who did not think so (46%).

We previously noted that for most South Africans their liabilities are predominantly denominated in rands, so, over time, investors should want to reduce their mismatch risk and opt to invest most of their assets in the same currency. This is especially crucial for retirement fund members who do not plan on emigrating upon retirement. That should somewhat constrain the extent of assets they should be investing offshore.

But ultimately the extent to which the 45% allowance may be utilised depends on the risk budget and return targets of specific investors or investment portfolios.

By default, or design?

The use of default investment portfolios with an option for members to select other choices has continued to be the dominant way in which assets in the accumulation phase are invested.

Default options with a member choice have shown moderate year-on-year growth for stand-alone funds from 51% to 57%, while they have decreased in popularity among umbrella funds from 52% to 46%.

The option where trustees are solely responsible for the investment portfolio choice has found favour with umbrella funds, growing from 28% to 35%, while having a tamer increase for stand-alone funds.

Furthermore, the use of lifestage investing remains popular among funds, with 77% of funds in lifestage investments in umbrella funds - up from 67%, while it remains relatively unchanged at 80% for stand-alone funds. Interestingly, the use of lifestage investing is also growing with the subset of union funds we looked at. Last year we had only 30%, but this has grown to half the funds now.

Diversifying the exposure to managers through a multi-manager has remained a favourite for funds as they navigated the volatile markets. Increasingly so for stand-alone funds, as they topped their allocation to multi-managers to 83% from an already high 77%, with little changes for umbrellas at 61% and a solid 80% for union funds.

Risk benefit review

The average lump sum payable on death and the average income payable on disability remained similar to the levels of 2021.

We have not observed a shift in PHI cost. The risk models predict that claims incidence on income disability benefits could rise the future. Such increases, together with the reduced opportunities for members to return to work, have direct premium rate basis implications. In addition to the economic factors, COVID-19 also poses a direct threat through "long COVID". For patients there is the material damage to certain vital functions and organs.

As to be expected, there has been an increase in the total cost of death benefits due to the high volumes of claims experienced as a result of the pandemic. For participating employers in umbrella funds this increased from 1,19% to 1,39% of salaries, which translates on average to a 17% increase year on year. For stand-alone funds the rate has increased from 1,51% to 1,61% (6,6% year on year).

Stand-alone funds:

- 48% provide approved risk benefits, 11% provide unapproved risk benefits and 42% provide both

		Change since 2021
Total cost of death benefits under the fund	1.61%	↑
Average lump sum payable on death	3.35 x salary	-
Total cost of disability income benefits (PHI)	1.21%	-
Average income payable on disability	76.65% of salary	-

Umbrella sub-funds:

- 68% provide approved risk benefits, 20% provide unapproved risk benefits and 12% provide both

		Change since 2021
Total cost of death benefits under the fund	1.39%	↑
Average lump sum payable on death	3.06 x salary	-
Total cost of disability income benefits (PHI)	1.09%	-
Average income payable on disability	76.25% of salary	-

The impact of vaccinations on risk rates – a topic for debate

Around 9% of stand-alone funds and 27% of umbrella sub-funds reported that their employers have a mandatory vaccination policy in place. Across all, on average 68% of employees are fully vaccinated. This statistic is slightly higher than the 50% of vaccinated adults reported by the Department of Health. Even though we understand that the number of adults who are vaccinated have increased, the challenge remains to verify this data from credible sources for it to have an impact on risk pricing models.

Only 6% of stand-alone funds and 1% of umbrella sub-funds have considered charging different risk rates for vaccinated versus unvaccinated members.

Thirty-one per cent of stand-alone funds and 21% of umbrella funds have looked at alternative solutions to limit risk premium increases:

- 12% and 10% respectively have considered reducing benefits
- 17% and 11% respectively have considered introducing flexible risk benefits

Member choice and flexibility a post-pandemic increasing trend

Stand-alone funds and participating employers in umbrella funds have confirmed this trend where there is an increase in flexible risk benefits on offer. There is a shift in funds offering flexible risk benefits as part of their benefit structures and the use of these risk benefits by members. Even though the percentage of stand-alone funds and participating employers that offer flexible risk benefits is minimal, there nevertheless is an indicative trend.

Participating employers in umbrella funds (29%) indicated that they are offering flexible risk benefits. This a significant increase from 16% in 2017, when this question was last posed. For stand-alone funds, this figure has increased from 29% to 38% over the same period.

Looking at member behaviour and experience with regard to their flexible risk benefits during the pandemic, 10,3% of participating employers in umbrella funds reported that employees have increased their level of cover and 13,8% have reduced their level of cover. In the case of stand-alone funds, 15,6% have increased and 9,4% have reduced their level of cover.

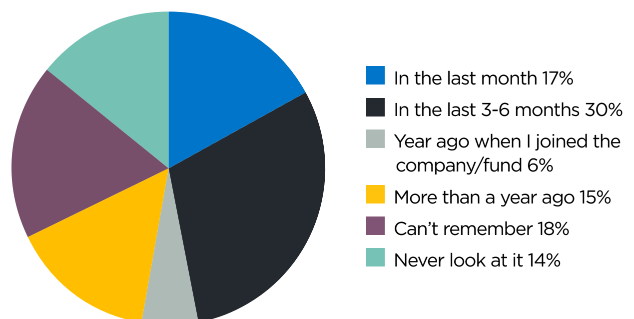
These percentages reflect the varying individual needs of members – some ensuring that they have appropriate levels of cover in place and others being more focused on reducing cover due to affordability and the need for more disposable income. Selfcare is having the peace of mind that you have the appropriate level of benefits and cover in place in the event of unforeseen insurance-related events.

Member engagement

Awareness of and engagement with employee benefits are a key enabler to help and support members. This empowers members to make informed decisions that enable positive outcomes and lead to financial confidence at retirement.

- 67% of surveyed consumers are aware of their employee benefits, including their retirement and medical aid benefits
- 72% receive regular communication on their employee benefits, including retirement and medical aid benefits

Last time engaged with employee benefits



It is comforting to note that many consumers (67%) are aware of their employee benefits, including their retirement and medical aid benefits, and 72% receive regular communication.

Umbrella fund sponsors believe one of the key challenges for the industry is solving the communication and member engagement issues. They have listed the following challenges for the industry to focus on:

- Member engagement / overcoming member apathy
- Need for multiple communication channels to reach different members: online, email, apps, SMS mobile, face-to-face, audio-visual
- Having accurate member contact details / keeping details up to date

Providing members with the appropriate support through various communication media that supports digital and engagement platforms is crucial, notwithstanding the importance of the role played by general financial education.

Point of exit

In our Sanlam experience we have seen the positive impact of engaging through retirement benefit counsellors who reach out to members at critical moments. They are available at that point when members are transitioning between jobs or at retirement.

Evidence supports the fact that after receiving counselling, members take a smaller proportion of their fund value in cash at retirement or resignation. Benefit counsellors support members to reach their retirement goals through proactive engagement. We have seen that with the proper support members preserve more of their funds, providing them with the necessary security for their retirement years.

Cyber attacks place the financial services sector at greater risk

The retirement fund industry remains highly regulated for all the right reasons. Technology advancement and expanding digital footprints have ultimately contributed to an increase in cyberattacks. At the end of 2021, Gartner conducted a survey to identify the top risks that will impact the financial services sector in 2022 and identified cyber vulnerability as the top challenge.

Financial services companies are 300 times more likely to experience a cyberattack than companies in other industries. The primary reasons include:

- rapid adoption of new technologies
- access management challenges
- lapses in security control
- increased employee vulnerability to social engineering

Over the past few years, financial organisations have witnessed an increase in the number and cost of cyberattacks. Global ransomware attacks rose by 93% in the first half of 2021 compared to the same period in 2020.

The local retirement fund industry is equally at risk, with 87% of stand-alone funds and 78% of umbrella sub-funds expressing a concern about the threat of cyber risk. The depth of concern is far higher among stand-alone funds, who are more actively taking steps to mitigate cyber risk.

For participating employers in umbrella funds, 33% indicated it's not part of their process. This is potentially because employers have placed their trust in their administrators and sponsors to take accountability for mitigating cyber risk.

An industry dedicated to people retiring with confidence

This year's Benchmark research has again demonstrated the commitment of an entire industry working together for the explicit purpose of having South Africans retire with confidence. We have demonstrated some areas of progress and have highlighted where much more needs to be done. Increasingly, stand-alone funds and participating employers have offered flexible benefit arrangements to which members have responded.

What stood out this year was the strong interest in having and implementing integrated healthcare solutions. However, employers are asking for solutions that resonate with the unique needs of their employee base. Solutions that consider longer-term health effects due to social and economic stimuli. As a means of selfcare, employees are engaging more actively with their employee benefits. But this level of engagement is not yet as widespread as it needs to be for all to reach their desired financial outcomes.

Wealthcare is about preserving the assets you already have and building on this. This is the role played by key industry players as they navigate the world of investments. Preserving your wealth is also about the environment, the economy and the social security of a nation. We have seen a strong interest in investing in alternative asset classes in the future, especially among stand-alone funds. There has been considerable growth in infrastructure investments since last year. However, investment in ESG and impact investment portfolios remains low for now. There is an opportunity to raise awareness and education to the levels of our global counterparts.

For now, in the South African context, impact investments that support economic growth, job creation and education take priority. Climate change is also likely to continue growing in importance over the next 5 years. We believe it is essential to communicate the impact of these types of investments in a tangible way to the benefit of asset consultants, but more importantly to key decision makers and members of retirement funds.

A JOURNEY TO RETIREMENT: HOW MUCH ARE MEMBERS AND EMPLOYERS CONTRIBUTING TOWARDS RETIREMENT SAVINGS?

Nonhlanhla Mdhluli
Investment Specialist
and
Boitumelo Ngoepe
Actuarial Specialist
Sanlam Corporate: Investments

The South African economy has reopened, and many people are still adjusting to the "new normal" way of doing things. This has had a significant impact on the financial behaviour of members since the start of the pandemic, and 58,08% of the members shared that they had started to live more frugally and cut out luxury items.

Specific to the retirement funds industry, 7,39% of the members have enhanced their retirement savings. This could explain the slight increase in average member contributions.

For the majority of retirement fund members, the contribution to the fund consists of both employer and employee contributions based on their pensionable salary. Pensionable salary is the income used by an employer to calculate a member's retirement fund contribution. This will typically include any fixed remuneration, such as salary or wages, but may exclude variable amounts such as commission, bonuses or overtime. For ease of comparison, all figures in this article refer to pensionable salary (also known as PEAR).

Employer and employee contributions

The average employer contribution, as a percentage of salary, was 10,45% - 0,39% lower than the previous year. The percentage of funds where the employer does not make any contribution to retirement funding remained static at 6%. It is likely that these employers remunerate staff on a cost-to-company basis and all contributions to a retirement fund are regarded as employee contributions.

The average employee contribution rate increased to 7,08% of salary (from 6,62% in 2021). The percentage of the funds whose members did not make any contributions to retirement funding was 10,7% in 2022, which is a decrease from the 12,0% in 2021. In these funds, all contributions are deemed to be employer contributions. The total contribution towards retirement funding for small funds (with fewer than 500 members) continues to exceed that of the very large, mainly blue-collar, funds (with more than 10 000 members).

	Average over past three years			Average over past five years
	All stand-alone funds	Funds with more than 10 000 members	Funds with fewer than 500 members	All stand-alone funds
Employer contributions	10,44%	9,50%	11,19%	10,38%
Employee contributions	6,78%	7,09%	6,73%	6,77%
Total retirement contribution	17,22%	16,60%	17,92%	17,15%

The impact of COVID-19

The COVID-19 pandemic has not only impacted the lives and livelihoods of members, but for many also their retirement provision. Most members (55,29%) had reduced income, 15,57% were retrenched and a small number (9,78%) of members were forced to take unpaid leave or a sabbatical. Despite more members returning to the office, a small number of employers (29%) have a mandatory vaccination policy in place.

Administration costs

Most funds continue to express their administration expenses as a percentage of a member's salary (44% of funds); however, this proportion has steadily declined since 2017 (61%). A further 36% of funds, mainly those with more than 10 000 members, expressed this cost as a fixed rand amount per member per month. Only 3% of funds expressed their administration expenses as a percentage of the fund's assets, which is more in line with the charging model in the retail savings market. An increasing proportion pay fees based on a combination of the above, as mentioned by 17% this year compared with 11% in 2021 and only 4% in 2019.

A fixed-rand-per-member approach implies the lowest level of cross-subsidy between members, but this is one instance where Sanlam believes cross-subsidisation may be preferred. The fixed-rand-per-member costs weigh more heavily as a percentage reduction on small salaries and have a much smaller effect on large salaries. Funds that use this method of cost recovery lose any administration expense cross-subsidy between higher-paid and lower-paid workers.

For those funds deducting a percentage of salary for administration, the average deduction amounted to 0,45%, which is 0,08% lower than the average over the past three years, while the average fixed fee per member for standard members amounted to R55.29 a month. Four funds indicated that they pay in excess of R90 per member per month.

As in previous years, members of very large funds (more than 10 000 members) benefit from economies of scale and pay a lower administration fee (0,46%) compared to members of smaller funds (fewer than 500 members) who pay on average 0,63%.

Expressed as a fixed fee per member, this varies from R40.27 a month for funds with more than 10 000 members to R53.83 a month for smaller funds with a membership of between 501 and 2 000. The average deduction for administration has continued to decrease for all funds over the past five years, benefiting retirement fund members. The five-year average administration cost has decreased by a significant 0,14% from 2021 to 2022 for all stand-alone funds.

	Average over past three years			Average over past five years
	All stand-alone funds	Funds with more than 10 000 members	Funds with fewer than 500 members	All stand-alone funds
Deduction for administration costs	0,59%	0,47%	0,66%	0,56%

Group risk costs

Forty-eight per cent of employers provide risk benefits (group life and disability cover) via their retirement fund (so-called approved risk benefits), while 11% provide these benefits under a separate scheme (unapproved benefits). The bulk of the remainder (42%) provides benefits both via the retirement fund and a separate scheme. The average deduction to cover the cost of life cover within the retirement funds was 1,61% of pensionable salary.

THE ROLE OF RETIREMENT FUNDS IN DRIVING SUSTAINABILITY OUTCOMES

Rhoderic Nel
Managing Executive
and
Tshegofatso Sekgwele
Investment Specialist
Sanlam Corporate: Investments

> Whether characterised as sustainable, responsible, or ESG investing, the consideration of sustainability factors has been in our lives since the 1960s when investors began excluding stocks from portfolios based on certain activities, such as the involvement in the South African apartheid regime.

There has been a growing awareness among financial sector operators that factors other than strictly financial ones might have an impact on their intended goals, especially as the world faces an increasing number of environmental, societal and governance (ESG) issues, such as climate change, inequality, and more recently, the COVID-19 pandemic. Because investors, such as retirement funds, are dependent on natural ecosystems, disruptions of these ecosystems can have a direct impact on their profitability and their members' retirement savings. As long-term investors, retirement funds are exposed to ESG risks and it is imperative that they put in place procedures to reduce and manage these risks. One avenue to do this is by dedicating efforts towards sustainable investing.

Scale and influence of retirement funds

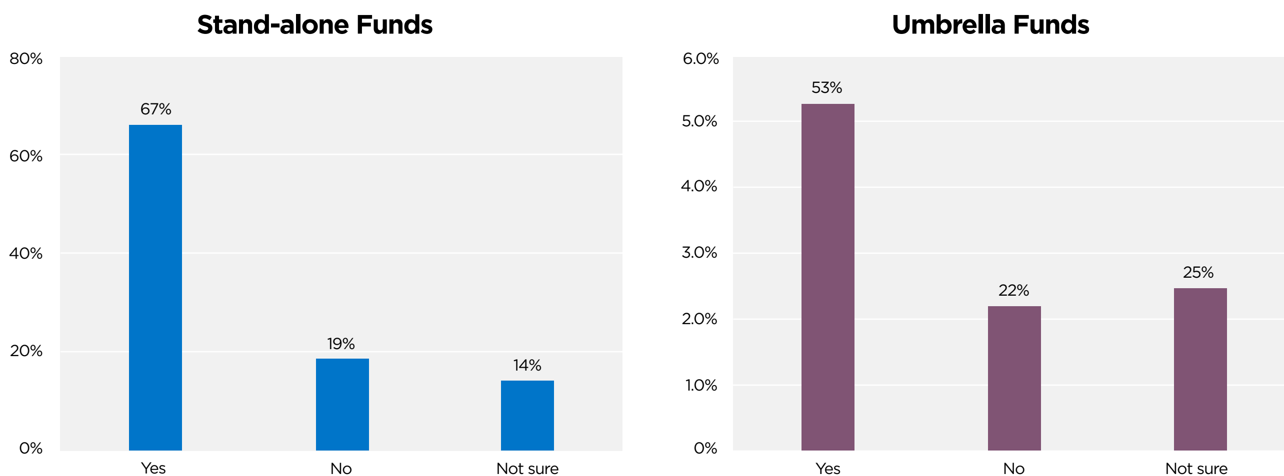
Retirement fund assets make up most of the assets in South Africa, as is the case globally. According to the National Treasury, South Africa has more than 5 000 retirement funds that manage and preserve the long-term resources of more than 16 million contributing members and retirees. The assets held by South African retirement funds account for more than 100 per cent of the country's annual gross domestic product (GDP). Retirement funds have been able to spend roughly R4,4 billion in various sustainability efforts, such as renewable energy and affordable housing projects, amongst others.

Despite the retirement fund industry's significant investment in sustainability, South Africa is still far from reaching the Sustainable Development Goals (SDGs) as set out by the

United Nations (UN), ranking 107 out of 165 countries in 2021. In addition, there has been a consistent shift from defined benefit (DB) to defined contribution (DC) plans. The implication of this shift for sustainable investing is that the time horizon of retirement funds is increasing towards infinite.

When asked whether their fund would be in favour of having its asset managers invest in alternative asset classes over the next three years, 67% of stand-alone fund respondents to the 2022 Sanlam Benchmark Survey were in favour of this, while 53% of participating employers' umbrella funds felt the same (Table 1 below).

Graph 1. Should our asset managers invest in alternative asset classes over the next three years?



This trend in asset allocation, the increasing time horizons from the move towards DC plans, and the size of the industry make retirement fund assets a crucial contributor to sustainable investing.

Why retirement funds should invest sustainably

Sustainable investing has in the past often been characterised as "slow moving", but the global COVID-19 pandemic has reinforced the interconnectedness of the world as well as the importance of considering social and environmental issues in investment portfolio decisions. In addition, the social unrest and floods in KwaZulu-Natal over the past 12 months have increased the focus on sustainable investing. As influential actors in our financial system due to their ability to influence and drive change, retirement funds must allocate capital sustainably.

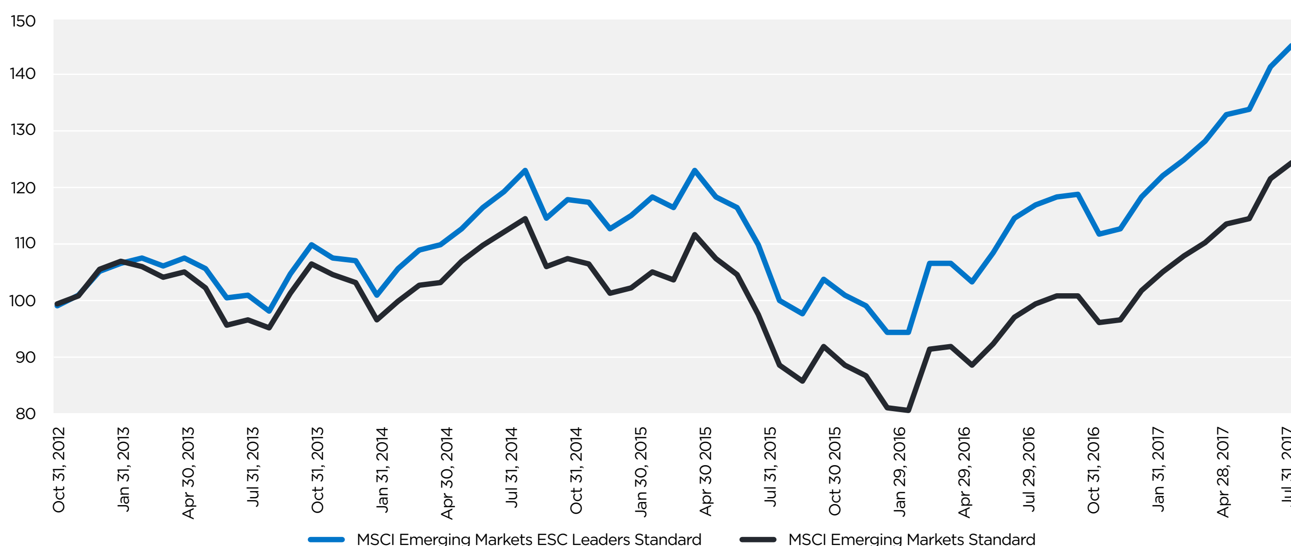
A first consideration of retirement funds' sustainable investing would be their fiduciary duty towards their members. Incorporating ESG into investment decisions allows for both better risk management and identification of investment opportunities. Furthermore, as part of the economy, South African retirement funds have a duty to contribute towards the UN's SDGs to "end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity" and the country's Nationally Determined Contribution (NDC) to cut emissions and adapt to climate impacts. Reputational considerations also drive retirement funds' need to consider sustainability when making investment decisions. For many funds, especially larger ones, it is important to be leaders in this area.

Finally, there have been increased regulations, as well as legal risks, requiring retirement funds to consider sustainability in their investment policies and decisions. According to the Principles for Responsible Investment (PRI), approximately 95 per cent of all ESG regulations have been developed since 2000. There is a societal shift towards a low-carbon economy while also addressing environmental and social concerns, and retirement funds, as stewards of multigenerational capital, have a unique capacity to mobilise capital to address the challenges. In line with this, respondents to the 2022 Sanlam Benchmark Survey have indicated an increase towards ESG-type portfolios within their funds (Table 2 below). For stand-alone funds, the percentage of respondents with an allocation of 0% decreased by 1,5% vs 2,0% for employers participating in umbrella funds, while allocations of between 1% and 10% increased by 5,5% and 23,0% respectively for stand-alone funds and employers participating in umbrella funds. On a positive note, the percentage of respondents who were not sure about their allocations towards ESG portfolio decreased by 13,5% and 12,0% respectively for stand-alone funds and employers participating in umbrella funds.

Table 2. Exposure to ESG-type portfolios

	Stand-alone Funds			Umbrella Funds		
% allocated towards ESG portfolio	2021	2022	Change	2021	2022	Change
0%	11,0%	9,5%	-1,5%	9,0%	7,0%	-2,0%
1% - 10%	35,0%	40,5%	5,5%	12,0%	35,0%	23,0%
11% - 20%	1,0%	11,9%	10,9%	3,0%	2,0%	-1,0%
More than 20%	5,0%	3,6%	-1,4%	10,0%	2,0%	-8,0%
Not sure	48,0%	34,5%	-13,5%	66,0%	54,0%	-12,0%

When considering investment returns, those of ESG-type portfolios have also been compelling. For example, the MSCI Emerging Markets (EM) ESG Leaders Index has been performing ahead of its parent index, the MSCI EM, in the respective periods indicated in the graph below (returns in USD). The MSCI EM ESG Leaders Index is a capitalisation weighted index that provides exposure to companies with high ESG characteristics relative to their sector peers and consists of large and mid-cap companies across 24 EM countries. The Index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market.



Regulatory influence

To encourage retirement funds to be more aware of sustainability issues, the updated Regulation 28 under the Pension Funds Act came into effect in July 2011 and included a new requirement for retirement funds to consider ESG, including climate change risks, in assessing ESG risks and opportunities that may materially affect the sustainable long-term performance of their fund assets. In addition, the Financial Sector Conduct Authority (FSCA) issued Guidance Note 1 of 2019 in June 2019 to provide guidance to fund boards on how to comply with the Regulation. This provided guidance and clarity on how funds should seek to ensure the sustainability of their investments and assets through their investment philosophy and objectives, as reflected in their investment policy statement. Beyond these interventions, resources such as the Code for Responsible Investing in South Africa (CRISA) and the National Treasury's sustainable finance paper ("Financing a Sustainable Economy", published in October 2021), aim to help institutions like retirement funds in understanding why sustainability is important to them and what role they can play in making South Africa a more sustainable economy.

Addressing climate change

The global challenge to transition to a low-carbon, climate-resilient economy has driven climate to the top of the agendas of governments, businesses and investors. This transition is supported globally via the Paris Agreement, and the main catalyst for action, at least for investors, is the acknowledgement that

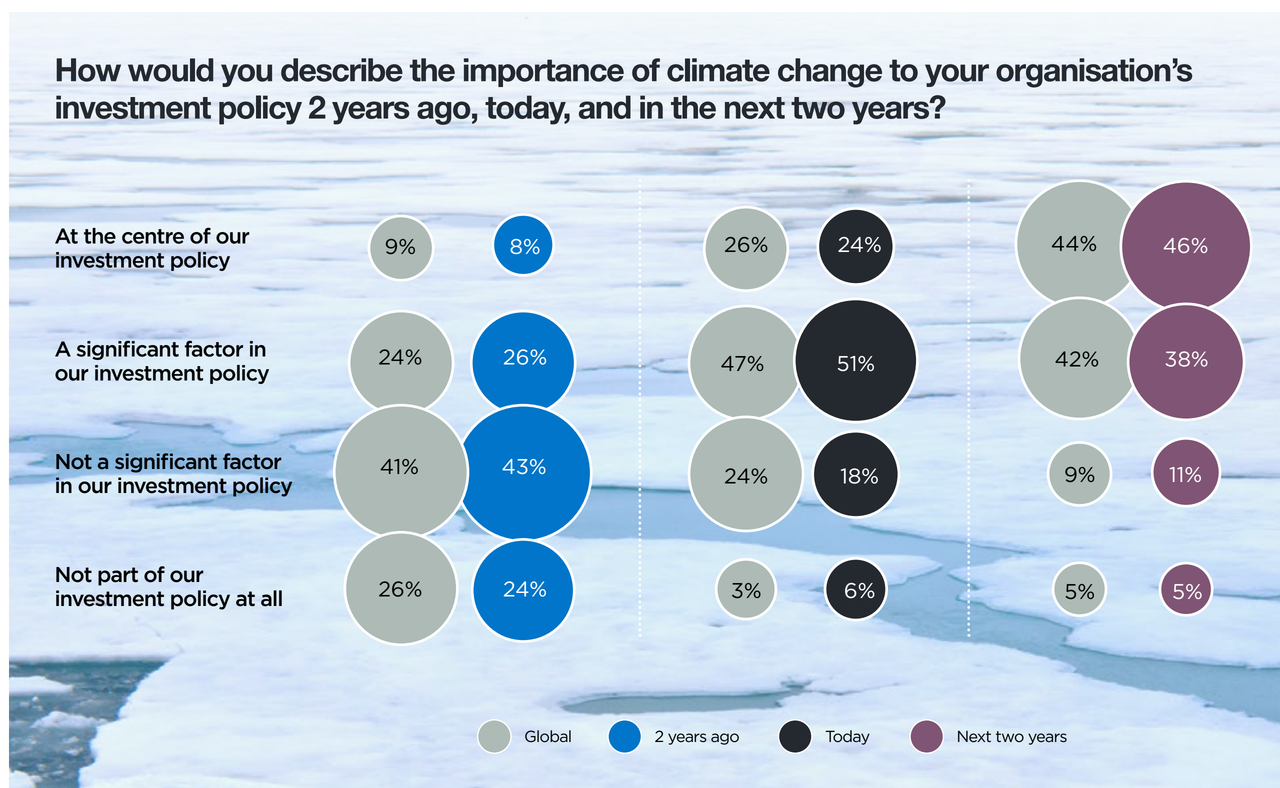
climate risk has become an investment risk. In this context, any financial institution, including retirement funds, that fails to consider climate change within its investment policies and decisions is likely to suffer. Simply put, climate change puts retirement fund investments at serious financial risk. However, given retirement funds' ability to influence capital allocation, this also implies that retirement funds can play an important role in the transition to a low-carbon economy. In addition, while climate change poses investment risks, the transition to a low-carbon economy also offers significant investment opportunities.

In this context, respondents to the 2022 Sanlam Benchmark Survey indicated an increase towards climate change considerations within their funds, as indicated in the table below. For stand-alone funds, the percentage of respondents who did not have climate change considerations as part of their investment strategies moved from 51,2% to 25,0%, while for employers participating in umbrella funds the number decreased from 57,0% two years ago to 34,0% today. These changes are positive and mean that an increasing number of participants are starting to engage on and think about the impact of climate change on their portfolios.

Table 3: Thinking specifically about climate change in the context of your investment strategy. How would you have described its importance in your investment strategy two years ago vs today?

	Stand-alone Funds			Umbrella Funds		
	2 years ago	Today	Change	2 years ago	Today	Change
At the centre	1,2%	4,8%	3,6%	2,0%	7,0%	5,0%
A significant factor	10,7%	33,3%	22,6%	15,0%	32,0%	17,0%
Not a significant factor	36,9%	36,9%	0,0%	26,0%	27,0%	1,0%
Not part of our policy	51,2%	25,0%	-26,2%	57,0%	34,0%	-23,0%

The outcomes of our Benchmark Survey appear to be consistent with those of institutional investors globally. The relevance of ESG issues, particularly climate change, has become clear and there has been an increase in scrutiny from the broader society into businesses' practices and policies. In line with the results of the 2022 Sanlam Benchmark Survey, Robeco's biannual climate survey also shows that 75% of institutional investors globally see climate at the centre of or a significant factor in their investment policy, as indicated in the graphic below.



The most common global objective – as exemplified through the UN-convened Net-Zero Asset Owner Alliance – is to transition investment portfolios to net zero greenhouse gas emissions by 2050, with an interim goal of halving portfolio greenhouse gas emissions and doubling capital allocated to climate alternatives by 2030. South African retirement funds can already invest in assets that address climate change, while giving positive risk-adjusted returns and investment opportunities will become more apparent soon. An alternative option for South African retirement funds to address climate change and contribute towards the country's Nationally Determined Contributions (NDC) – targets set by countries to mitigate greenhouse gas emissions and adapt to climate impacts – would be to divest from carbon-intensive businesses. While divestment is powerful, it has the potential to contribute towards unemployment, an issue especially not desirable in a country like South Africa with an unemployment rate in excess of 30%. Additionally, divestment often leads to the transition of carbon-intensive businesses' ownership to less environmentally conscientious and potentially private owners who might make less climate-friendly decisions without public scrutiny. Due to this, engagement with carbon-intensive businesses is crucial, and retirement funds need to put active engagement at the top of their agendas and set the tone for a transition to a low-carbon, climate-resilient economy. The primary goal of retirement funds remains providing members with secure future income. Finding a way to be active in financing this economic transition is a critical challenge, and addressing this challenge will necessitate transformational change.

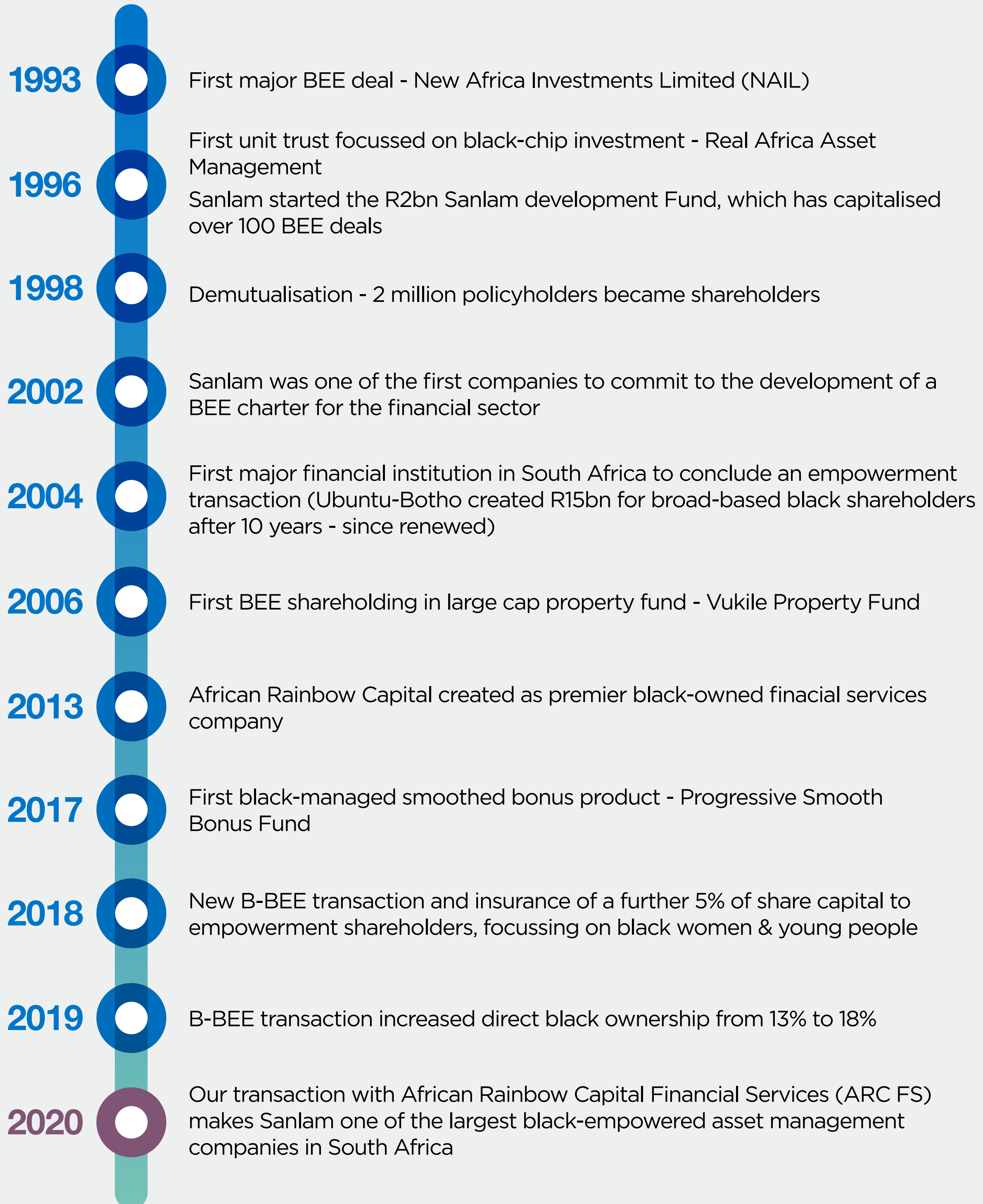
A JOURNEY TOWARDS DELIBERATE TRANSFORMATION

Jason Liddle
Head: Distribution
and
Tinotenda Mtemeri
Head of Institutional Distribution
Sanlam Investments

> "Transformation forms a critical part of our longstanding purpose-driven journey. Here at Sanlam Investments we are contributing to transformation along multiple dimensions."
>
> Nersan Naidoo, CEO Sanlam Investments

Sanlam Investments is now one of the country's largest black-owned asset managers, following African Rainbow Capital (ARC) Financial Services' acquisition of 25% of the business.

Transformation forms a critical part of our longstanding purpose-driven journey to empower generations to be financially confident, secure and prosperous. Since Sanlam's inception, empowerment has been at the very heart of our business, and since 1993 we've enjoyed a rich history of pioneering empowerment in South Africa.



We're a business that is dedicated to making a difference in the lives of all South Africans. We know the world is incredibly complex with an inordinate number of environmental, social and governance (ESG) challenges. Our responsibility is to use our will and resources to meet these challenges and create a lasting positive impact on the society we serve.

Sanlam Investments houses several investment management businesses, covering both the public listed and private markets, spanning various asset classes. This enables us to focus on the full spectrum, from our sustainable investing to our impact-driven objectives. While sustainable investing mitigates risk and adopts progressive ESG practices, impact investing addresses societal challenges while generating competitive financial returns at the same time.

As an empowered asset manager that focuses on the full spectrum, we strive to advance a cause greater than ourselves, to protect the people and the places we operate in, and to use our resources to generate more than we consume, so we can continue making a sustainable difference for generations to come. Sanlam Investments focuses on forging transformation alongside the following four critical dimensions:

Ownership | Broad-based black economic empowerment

We are proud that our purpose-driven journey includes ownership – a fundamental pillar of transformation. The recent transaction with African Rainbow Capital (ARC) is our way of contributing to the ongoing transformation of the asset management industry – transformation which has been far too slow for too long. It's a continuation of our Group's history of broad-based black economic empowerment (B-BBEE) deals, which began in 1993 when we sold Metropolitan Life to Methold as South Africa's first major black empowerment deal. Our subsequent Ubuntu-Botho economic empowerment transaction (first initiated in 2004) was one of the most successful transactions of its kind, unlocking R15 billion worth of value creation for our black shareholders.

This is aligned with the results reflected in this year's Sanlam Benchmark Survey, which shows that asset consultants are seriously considering the FSC scorecard along with other factors when selecting an asset manager.

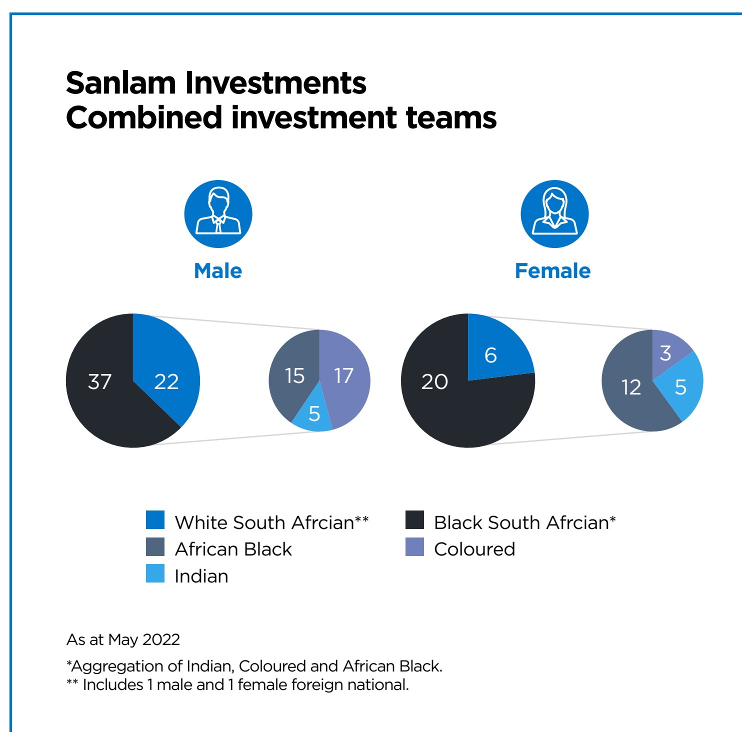
In addition, eight measure the percentage of total procurement spend their clients direct towards firms that are at least 51% black owned (with a mean of 44,5%); only four asset consultants don't consider B-BBEE when selecting asset managers, and among the 11 who do, the average weight of importance assigned to different B-BBEE criteria is:

	Average Weighting
Equity ownership	23,6
Management and control	20,5
Transformation of the investment team	19,9
Skills development	11,2
Employment equity	9,1
Socio-economic development	6,6
Enterprise development	5,0
Preferential procurement	4,1

Percentages among our retirement fund clients were marginally higher at around 21,4%.

Diversity | A firm commitment to improving our racial and gender diversity

Internally, we believe it is vital to diversify along gender and racial lines to reflect the demographic profile of our society. By implementing lasting changes at all levels of decision makers, we are setting the tone for improving employment equity in the long term. We have also created diversified succession pipelines through sustained mentorship of our emerging talent.



As at May 2022

*Aggregation of Indian, Coloured and African Black.
** Includes 1 male and 1 female foreign national.

Sustainable Investing | Navigating the changing world

Globally and locally, we're facing major collective challenges like climate change, income inequality and governance failures. As a responsible corporate citizen, it is critical that we approach these challenges holistically – from an operational, governance and investment dimension. In doing so, we set a benchmark and drive lasting change.

In the same deliberate way that a client pursues an investment return profile or objective, we are building disciplined approaches toward our clients' ESG objectives and global best practice. To do so, we have partnered with Robeco, a leading global sustainable investing practitioner. It is ranked first for sustainable investing in the renowned ShareAction survey covering 75 global asset managers.

As our work with Robeco continues in earnest, the practical implementation of our overall sustainability agenda takes place through four principal areas: these are in our corporate identity and profile, operations as a corporate citizen, governance, and the investment and advice framework.

Key client value propositions

What is global best practice?

Cororate Profile: The world is incredibly complex and faces an inordinate number of environmental, social and governance challenges. Sanlam Investments (SI), alongside clients and stakeholders, would like to meaningfully contribute to shaping positive outcomes and limiting/ eliminating negative ones.

Operational frameworks: In being a credible and authentic sustainability practitioner our own organisation needs to develop robust policy frameworks, espouse sustainable business practices and report thereon.

Governance frameworks: Oversight by a strong governance ramework championed by the senior-most leadership and supported by a complementary culture (behaviours).

Investment frameworks: While an asset manager would like to shape outcomes and contribute to change in the world a strong client centric investment framework is necessary to effectively navigate the world of change and assist clients to reach their specific outcomes. Replete investment decision making requires an embrace of all material risks and opprtunities of any investee entity.

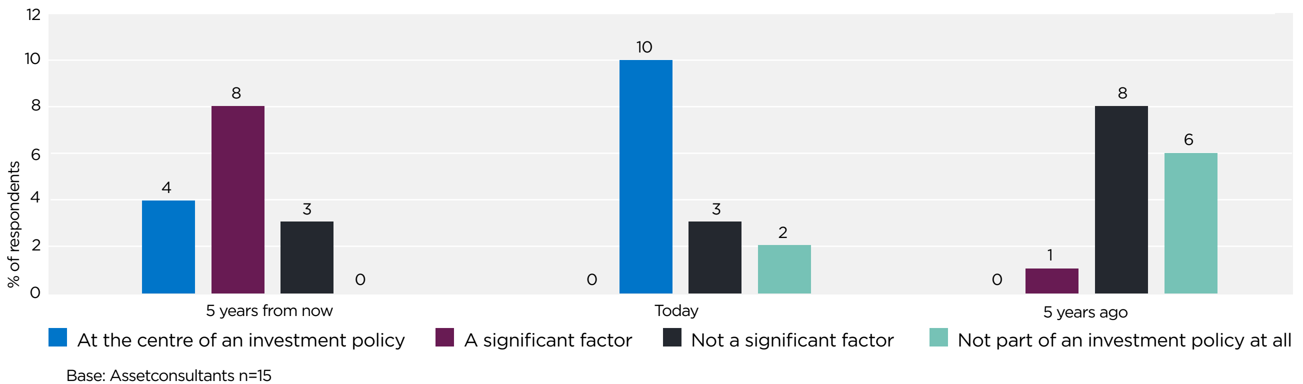
Impact | Mobilising capital to make a positive impact

We aim to raise R35 billion in capital towards achieving 14 of the 17 United Nations Sustainable Development Goals through our existing range of impact funds.

Our Climate Investor One (Renewable Energy Fund) was successfully launched from within Climate Fund Managers (CFM), our joint venture with Dutch Development Finance Bank FMO. Climate Investor One has raised $US850 million to foster clean-energy projects in Africa and Asia. Climate Investor Two (Water Fund) is CFM's second blended finance facility. This fund focuses on various water, ocean and sanitation infrastructure projects in emerging markets and reached its first close in November 2021 with US$675 million in commitments – targeting a final close of US$1 billion. Both funds employ strong impact measurement frameworks and tangible, real-world impact targets that make a sustainable difference in people's lives.

It was interesting to note that asset consultants' indications of the importance of climate change in their investment strategies were reflected as follows in this year's Benchmark Survey:

Importance of Climate Change in Investment Strategies



The importance of climate change is increasing over time and impact investments focussed on climate change are likey to become increaingly important over the bext 5 years.

We are proud that Satrix, the biggest and leading indexation business in South Africa by any measure, is democratising investments and helping all South Africans access the growth available on our capital markets. Satrix also demonstrated its enduring pioneering spirit with another South African first - the launch of the Satrix Inclusion and Diversity ETF, made up of 30 JSE-listed companies that best demonstrate and promote the values of inclusion and diversity in the workplace, using key metrics that include gender, race, physical ability and background. The Satrix's MSCI World and Emerging Market ESG Enhanced exchange-traded funds (ETFs) also maximise exposure to positive ESG metrics, while reducing exposure to greenhouse gases and decreasing fossil-fuel emissions by 30%.

We also launched our Sustainable Infrastructure Fund in September 2021. As our economy continues to struggle to recover from the effects of the COVID-19 pandemic, capital investment into South African infrastructure projects is vital for recovery and a return to solid growth.

Sanlam Investments is aiming to attract R5 billion from institutional investors in its Sustainable Infrastructure Fund, with over R800 million already committed. In addition, over the next two to three years, the Sanlam Group expects to invest a further R6 billion of its own capital alongside the Fund into projects that drive infrastructure development in South Africa. While providing finance to infrastructure projects that deliver solid financial outcomes, we are also able to support sustainable economic growth and market development. To that end, the Sustainable Infrastructure Fund is aligned with six of the 17 United Nations Sustainable Development Goals, including:

At the height of the pandemic, we launched Sanlam's Investors' Legacy Range, with the specific objective of creating and preserving 27 000 fair, inclusive and high-quality jobs. **Sanlam committed R2.25 billion of its own capital, demonstrating ultimate and fundamental alignment with like-minded investors.** The range, which comprises the SME Debt, Mid-Market Private Equity and Corporate Debt Funds, focuses on different parts of the market, from small and medium-sized enterprises (SMEs) to mid-market and large corporates respectively.

Sanlam's Investors' Legacy SME Debt Fund is now fully subscribed at R1 billion, drawing a warm reception, support and additional commitments (R750 million) from our third-party clients. The Fund completed its first round of transactions and has committed around R306 million in debt relief capital to 11 South African small businesses, with the explicit aim of preserving 3 894 jobs. These businesses are expected to create a further 920 jobs and promote inclusive growth (1 766 indirect jobs and 501 temporary jobs).

The Eskom Pension and Provident Fund, a reputable and high-profile institutional investor, recently launched its own SME Debt Fund and has appointed Sanlam Investments as the fund manager – we are very proud to partner with them and invest alongside them.

Our Investors' Legacy Private Equity Fund has also completed its first three transactions, playing a critical role in contributing to economic growth and employment as a primary social issue in South Africa. The first deal was with the Cavalier Group, an integrated AAA-grade red-meat supplier to a significant player in the South African supermarket industry. Following our transaction, the company has more than trebled its workforce in three years, and together we are looking to create an additional 300 new jobs over the next five years. The Cavalier Group transaction recently won our team the Deal of the Year Award at the SAVCA Private Equity Conference Awards. Absolute Pets is another perfect example of a successful mid-market private equity partnership. Absolute Pets is South Africa's largest specialist pet food and product retailer with more than 120 stores and 450 employees nationwide. Following the conclusion of the deal, Absolute Pets was able to trade successfully through the COVID-19 lockdowns with no job losses or retrenchments, which is a success story in itself! They also opened 25 new stores in one year alone, creating over 80 new jobs and employing individuals from previously disadvantaged groups – those areas of the population hardest hit by unemployment in South Africa. Of these, 69% are women and 66% under the age of 35.

Together, these transactions will preserve 1 412 jobs and create around 550 new jobs.

The private equity team recently concluded their third deal in the fintech space with Q-Link Holdings, forging a high-impact, unique and proprietary pipeline and portfolio of high-quality assets.

How important is sustainability, climate action and transformation to our clients?

The answer was revealed in this year's Benchmark Survey. Trustees were asked: **Which of the following themes take the highest priority in retirement fund trustees' investment decisions based on their fund's sustainability and impact objectives?** The results support our strategic shift in our sustainability agenda, with a strong skew to economic growth, job creation, education and access to clean energy.

	2022
Base: All respondents	84
Job creation	41 48.8%
Climate action	15 17.9%
Affordable housing	10 11.9%
Access to energy/clean energy	20 23.8%
Education	30 35.7%
Financial inclusion	11 13.1%
Reducing poverty/hunger	13 15.5%
Gender equality	1 1.2%
Access to clean water and sanitation	8 9.5%
Economic growth	46 54.8%
Good health	4 4.8%
Transformation	13 15.5%
New asset classes	2 2.4%
Don't know	11 13.1%
Table Size	225 267.9%

We believe that with the high unemployment rate in South Africa, the only way to achieve socio-economic stability is to focus on job preservation and creation. For us, this means that putting our capital alongside that of our clients is the best way to demonstrate genuine alignment. Our own portfolio managers are all invested in the Investors' Legacy range as well. This is how we're using our financial products to save, retain and create jobs through our purpose, capital and expertise.

Corporate Social Investment | Mobilising capital to do good

As a group, we are proud to get behind corporate social investing because it improves the lives of fellow South Africans. To empower people to live with confidence, we need to provide real ways to foster greater socio-economic inclusion. A solid foundation in financial literacy enables individuals to pursue their goals and grow and protect their wealth in the long term.

Our aim is to invest in strategic partnerships and programmes that make a sustained difference, whether this is through our targeted consumer financial education programmes, our partnership with Takalani Sesame and in-school numeracy programmes, sponsorships and enterprise and supplier development programmes, to name a few.

In the past 10 years we've invested over R630 million in the communities in which we operate.

Our exciting and ongoing purpose-driven journey continues. As allocators of capital across various markets, part of this is using our influence to encourage corporates to do better, including contributing to a greener and more equitable future for all South Africans. It's also about strategic, considered corporate social investment projects and using our financial products to pursue impact and financial objectives. At the heart of it, our mission is to build a better, fairer and more inclusive world for generations to come.

REGULATION 28 - THE WINDS OF CHANGE FOR RETIREMENT FUNDS

Darryl Moodley
Head of Tailored Investments
and
Tinotenda Mtemeri
Head of Institutional Distribution
Sanlam Corporate: Investments

Regulation 28 of the Pension Funds Act is applicable to all "retirement" vehicles, such as pension, provident and preservation funds, and retirement annuities.

In the 2019 edition of the Benchmark Survey, Jason Liddle (Head of Distribution at Sanlam Investments) and Fred White (Head of Balanced Funds at Sanlam Investments) explored whether Regulation 28's intention to ensure retirement savings are invested responsibly through diversification within and across assets classes while limiting exposure to the riskier growth asset classes, was serving clients well. Some of the pertinent issues raised in that article included concentration risk within the local equity market, the risk of missing out on key global trends not accessible within South Africa, and the overexposure to country and political risk in South Africa within client portfolios because of the restrictive offshore limit.

Since the publication of that article in 2019, the Minister of Finance in his annual Budget Speech on 23 February 2022 announced a harmonised offshore exposure limit for South Africa institutional investors, such as retirement funds, to enable up to 45% of their assets to be invested offshore. For retirement funds, this represents an increase from the previous limit of 30%; however, the additional 10% African allowance has fallen away for investment purposes. We believe this change brings greater alignment and flexibility for retirement fund members to achieve their goals of retiring with dignity.

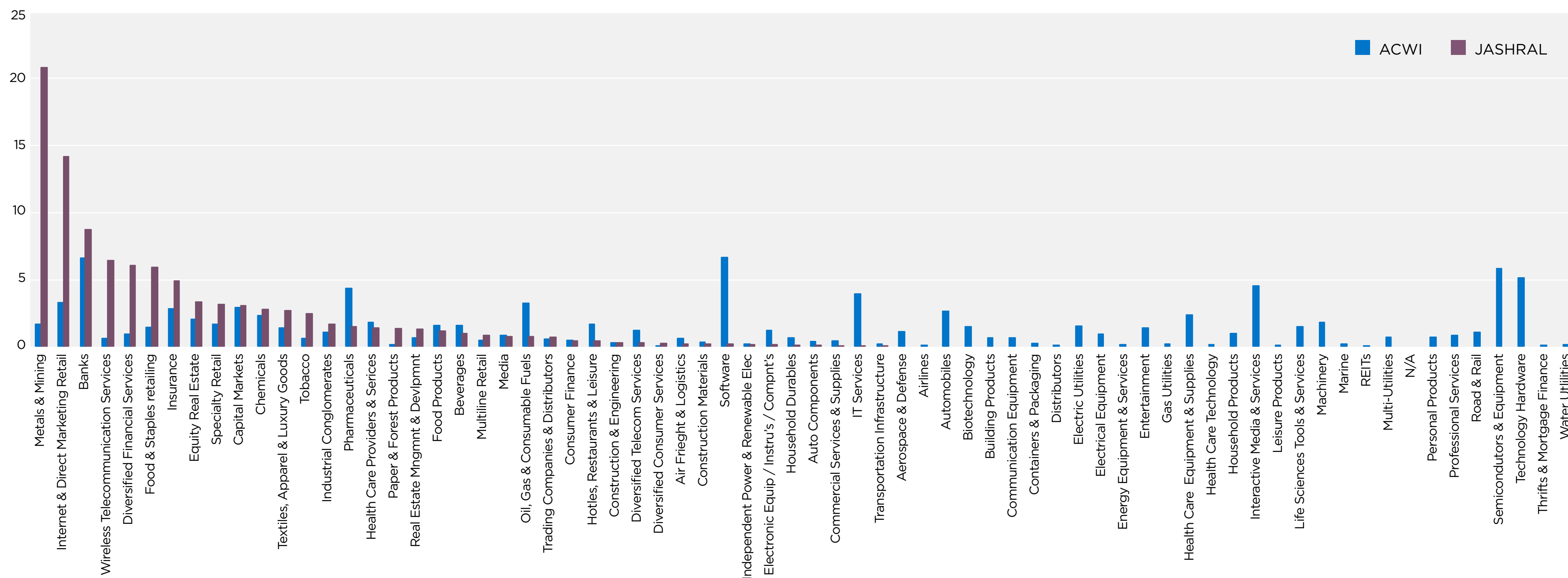
The implications of this change are wide-reaching and must be carefully considered.

Importance of the change

This change represents by far the most significant change to Regulation 28 in many years and came as a surprise given that the South African Reserve Bank (SARB) had previously been reluctant to drastically increase the offshore limit and given the backdrop of the increased volatility in the rand/$ exchange rate. A more relaxed exchange control regime for investors has, however, long been called for as, philosophically, any exposure restrictions reduce the degree of freedom and

investment choices available to investors. While there is an argument for SA-based investors to have most of their assets invested in the rand-based SA market to minimise risks associated with a volatile currency, SA represents a small percentage of the global economy, representing only 0,4% of global gross domestic product (GDP). Additionally, the market capitalisation of the local JSE Index represents less than 2% of that of the MSCI ACWI (All Country World Index). The local equity market is also very limited in terms of breadth and depth. To illustrate the breadth of the local equity market, Graph 1 below compares the sector composition of the local equity market as represented by the FTSE/JSE Shareholder Weighted All Share Index (SWIX) to that of the MSCI All Country World Index (MSCI ACWI). The graph clearly highlights the very concentrated nature of the local market, with much of this concentration in the old economy sectors of resources, financial services and retailers.

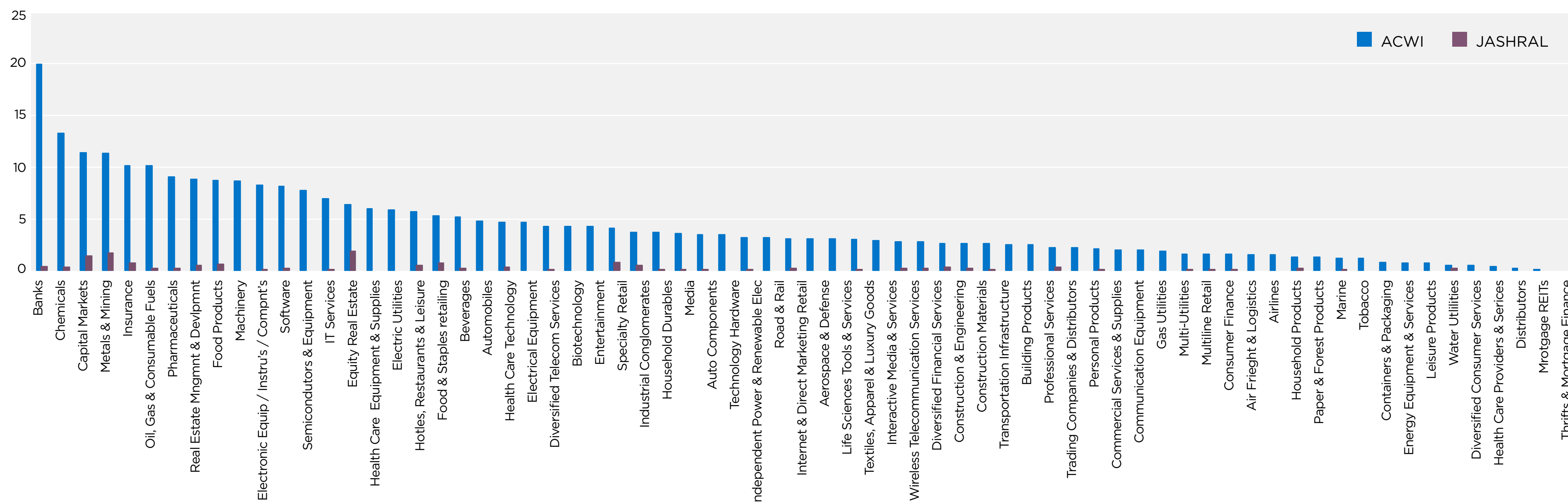
Graph 1: Sector breakdown of the JSE SWIX and MSCI ACWI



In many sectors, SA investors are predominantly limited to a single large counter (e.g. Sasol, Naspers, Richemont, etc. in their respective sectors) and hence our concentration is not only by sector, but also by the limited ability to diversify within sectors. The Naspers/Prosus stable provides a good example, where SA investors' main technology exposure is for all practical purposes limited to Chinese exposure (via Tencent as main component of the Naspers assets) and within it the limited set of subsectors in which Tencent is active.

In comparison, the MSCI ACWI has 13 tech-related subsectors, each containing multiple listings specialising in that area of the market. The near 60% underperformance of Naspers relative to the tech-heavy Nasdaq Index (in same currency terms) over the 12 months to March 2022 illustrates the severe detrimental impact this concentration can have on the investments of local investors.

Graph 2: Depth of market by main sectors



As a result, an investor who is forced to have the bulk of his/her equity investments in a single market that only represents a very small portion of the global opportunity set, such as South Africa, runs the risk of having very limited exposure to new emerging growth sectors, or even missing out on them altogether. The world has increasingly become a global marketplace. As the global economy evolves, markets change, new growth opportunities present themselves and old ones mature and sometimes even fade away.

The potential adverse impacts

However, it is also prudent to reflect on the potential downside for investors and the economy. The rand, being one of the most liquid emerging-market currencies available, is also one of the world's most volatile currencies (as reflected in graph 3 below). If an investor does invest offshore, it means there is potentially more exposure to currency risk in a portfolio. So, the increased 45% exposure limit could result in a higher level of currency risk borne by investors who opt to utilise that freedom.

For most South Africans, our liabilities are predominantly denominated in rands, so, over time, investors should reduce their mismatch risk and opt to invest most of their assets in the same currency. This is especially crucial for retirement fund members who don't plan on emigrating upon retirement. So that should somewhat constrain the extent of assets they should be investing offshore.

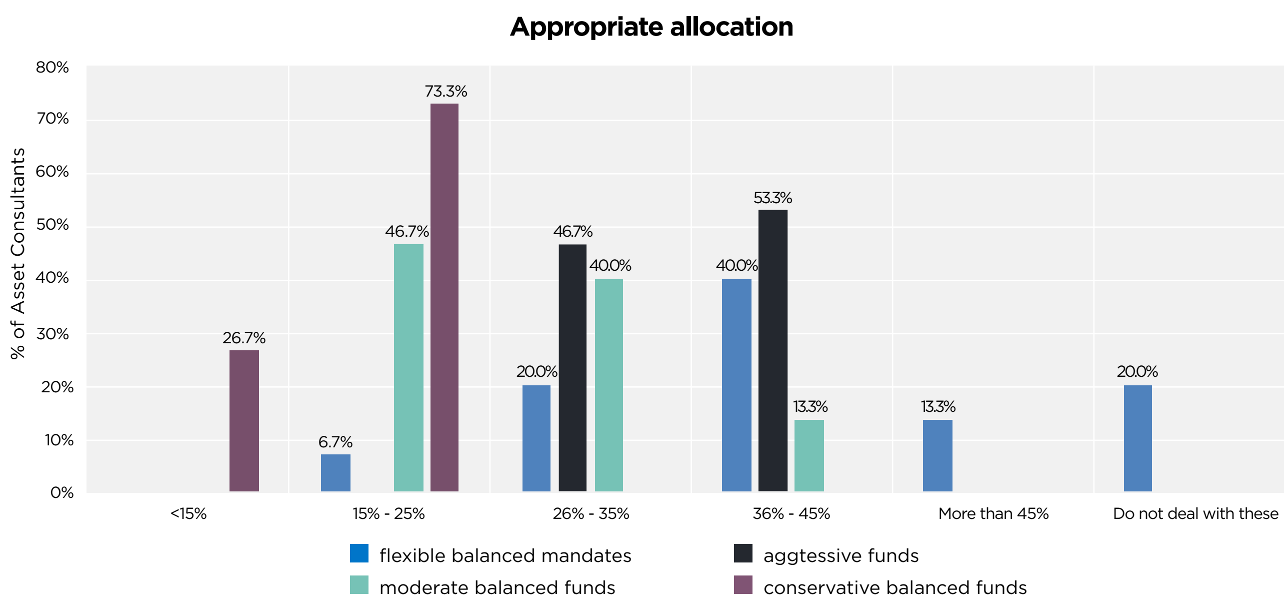
The other consideration is that, according to Regulation 28, up to 75% of a portfolio may be invested in equities. This is usually split across global and South African equities for the reasons previously mentioned. But, if we look at the South African equity market, the biggest counters or shares in the market are multinationals. Those are essentially already global companies with significant offshore revenue streams. So, by considering the previous 30% offshore exposure limit together with the actual "look-through" offshore exposure of JSE-listed companies, it is probable that up to 80% of a retirement fund's assets are already global. That's great from a diversification perspective but, arguably, begs the question whether the increased limit adds significant value.

The change does also pose a threat to the local asset management industry, as much of the assets invested offshore will likely be outsourced to international asset managers. Depending on the extent to which local asset managers can adapt, the impact of this structural change will only be known in years to come.

Indeed, this may only compound the problems with regard to South Africa's struggling economy, which have been well documented. Over time, the investment returns earned on the local economy will be anchored by SA's stagnant economic growth, and the externalisation of investment funds, due to the increased 45% limit, will no doubt exert further pressure on JSE prices and the rand. Given that SA is a small contributor to global growth, this view could, however, be dwarfed by global macroeconomic policy and events.

The results

The extent to which the 45% allowance would be utilised depends on the risk budget and return targets of the specific investor or investment portfolios. The 15 asset consultants polled as part of the Sanlam Benchmark research study did suggest that balanced and aggressive funds would benefit the most from the increased allowance, while more conservative portfolios would continue to limit the extent of their offshore exposure.



In summary, we believe the industry has broadly welcomed the increased offshore allowance, and on balance we believe the benefits will outweigh the potential adverse impacts.

REG 28 – CONTINUOUS RECALIBRATION OF OUR LONG-TERM-ORIENTED ASSET ALLOCATIONS

Lauren Jacobs
Portfolio Manager
Satrix
and
Nico Katzke
Head of Portfolio Solutions
Satrix

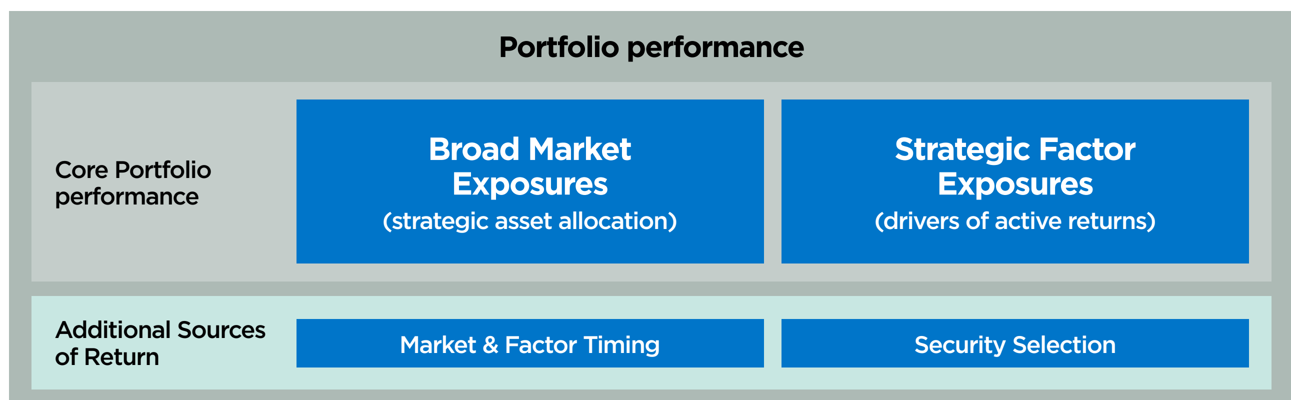
Duma Mxenge
Business Development Manager
Satrix
and
Kingsley Williams
Chief Investment Officer
Satrix

Overview

The Satrix Enhanced Balanced Tracker Fund was launched in 2008 and is our flagship multi-asset fund, managed according to the guidelines of Regulation 28. The main purpose of this fund is to provide investors with a diversified blend of local and international asset classes that can deliver inflation-beating returns over the long term. This report describes our process and the insights it provides us, which ultimately inform the decision on what Strategic Asset Allocation (SAA) changes to make to the Satrix Enhanced Balanced Tracker Fund.

Indexed balanced fund motivation

Research has shown[1] that the vast majority of portfolio variance in a balanced fund comes from broad market exposures (SAA-focused) and exposure to key factors or styles. Market timing and stock-picking are smaller contributors to long-term returns, and if not implemented in a well-considered or cost-effective manner, can detract value.



Source[1]: BlackRock, Gary P. Brinson, L. Randolph Hood, Gilbert L. Beebower [1995]. *Determinants of Portfolio Performance Static Indexing Beats Tactical Asset Allocation*, Joseph E. McCarthy and Edward Tower, *The Journal of Index Investing* Spring/Summer 2021, 11-12 (4-1) 41-52

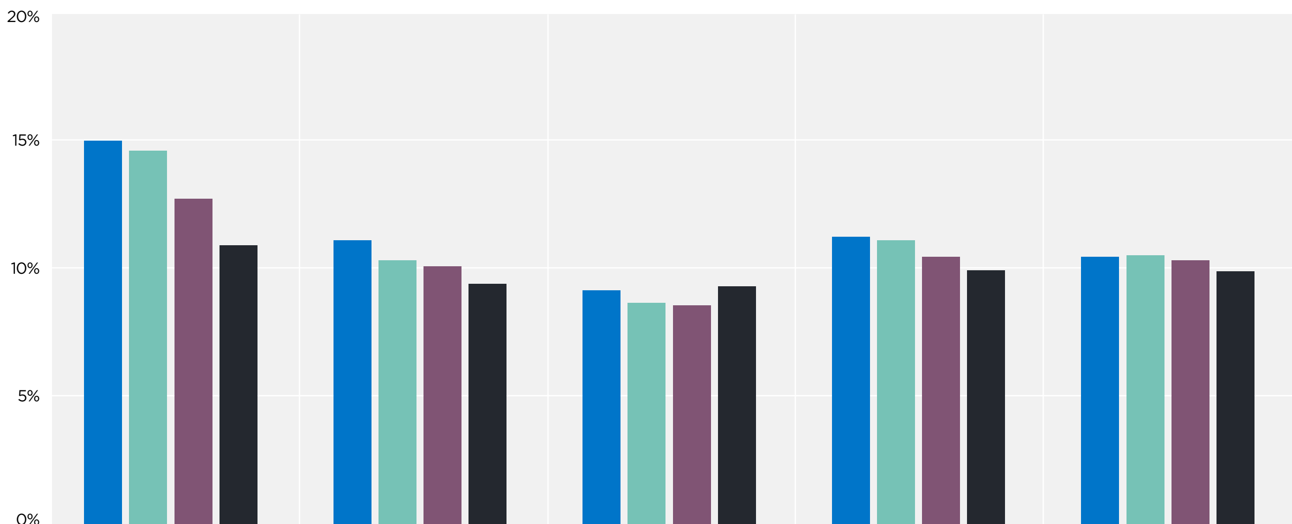
1. C.f. BlackRock, Gary P. Brinson, L. Randolph Hood, Gilbert L. Beebower (1995). *Determinants of Portfolio Performance Static Indexing Beats Tactical Asset Allocation*, Joseph E. McCarthy and Edward Tower, *The Journal of Index Investing* Spring/Summer 2021, 11-12 (4-1) 41-52

Our own research has shown that this applies in South Africa too, where most balanced fund managers achieve very similar return profiles, while rules-based SAA-focused balanced funds have produced higher returns more consistently over time.

We show that this held true even during the historically high differentiation opportunities provided to active managers during the recent market turmoil of 2020 and 2021. These are the exact periods that would, in theory, benefit active managers able to differentiate from systematic (SAA-focused) low-cost solutions. In reality, however, rules-based indexed solutions on aggregate strongly outperformed their active counterparts on a 1-, 3- and 5-year basis despite the available opportunity sets.

Our long-term-oriented, SAA-focused approach delivered excellent returns compared to the Global LMW Median, as seen below. The Satrix Enhanced Balanced Benchmark performance shows the value of getting the SAA right through time, while the outperformance of the Satrix Enhanced Balanced Tracker Fund versus its benchmark shows the value that has been added through a well-considered TAA.

Figure1: Satrix Enhanced Balanced Tracker Fund gross returns as at 31 March 2022



1 year	3 years	5 years	10 years	Since Sep 08
15.13%	11.23%	9.21%	11.33%	10.53%
14.76%	10.41%	8.70%	11.18%	10.60%
12.85%	10.10%	8.59%	10.55%	10.41%
10.98%	9.44%	9.33%	10.00%	9.95%

Source: Satrix, gross total returns as at 31 March 2022. Returns in excess of 1-year are annualised.

Satrix Enhanced Balanced Tracker
Satrix Enhanced Balanced Benchmark
Global LMW Median
CPI+5%

Biennial Recalibration: Active intervention or fluid benchmark?

Every two years we embark on a detailed review process where we test and re-evaluate our long-term SAA assumptions. This entails sourcing and incorporating the views of teams across Sanlam to inform our revised nominal return forecasts. The immediate question is whether this is indeed warranted, considering our mandate of constructing long-term focused indexed solutions. One possible contention would be that such a re-evaluation is more tactical in nature and not appropriate for a multi-asset benchmark.

It is our conviction that, on the contrary, for any benchmark to remain relevant it needs to be fluid. This is particularly important when a fund is tightly anchored or tracks a multi-asset benchmark. To provide for changes in regulations (e.g. allowing higher offshore allocations), structural changes in the investment landscape and improved access and cost efficiencies to a wider set of relevant indexed investment products, it is appropriate to recalibrate our long-term-oriented asset allocations periodically. Doing so only when significant changes prompt us to (e.g. recent amendments to Regulation 28), would introduce a measure of subjectivity not befitting a systematic design process.

Rather, by reviewing every two years, we intend to make sure that the multi-asset benchmark we track remains relevant and appropriate to deliver the best possible investment outcome for clients. In this way we aspire to lead the industry by best utilising our available intellectual and technological resources, while providing a compelling suite of cost-effective indexed products.

Portfolio construction considerations

Our abovementioned asset evaluation framework primarily seeks to maximise returns while ensuring risk is mitigated through optimal risk-source diversification. The risk and diversification elements are derived using past information (our sample set consists of data from August 2006 to date, while shorter periods are also considered for robustness checks). While by no means a perfect indicator of future risk or diversification potential, it remains a sensible assumption that these correlation structures remain relevant.

Our return expectations are determined using a bottom-up fundamental valuation (derived using inputs from various teams across the Sanlam Investments business). We also run separate simulations where we assume history repeats itself by using historical returns, providing counter-factual scenarios for robustness checks.

Below we show our mean and variance inputs to our asset allocation framework for each of the asset classes considered (note we considered a wide group of assets, not all of which form part of our final allocation).

Table 1: Historical returns series considered

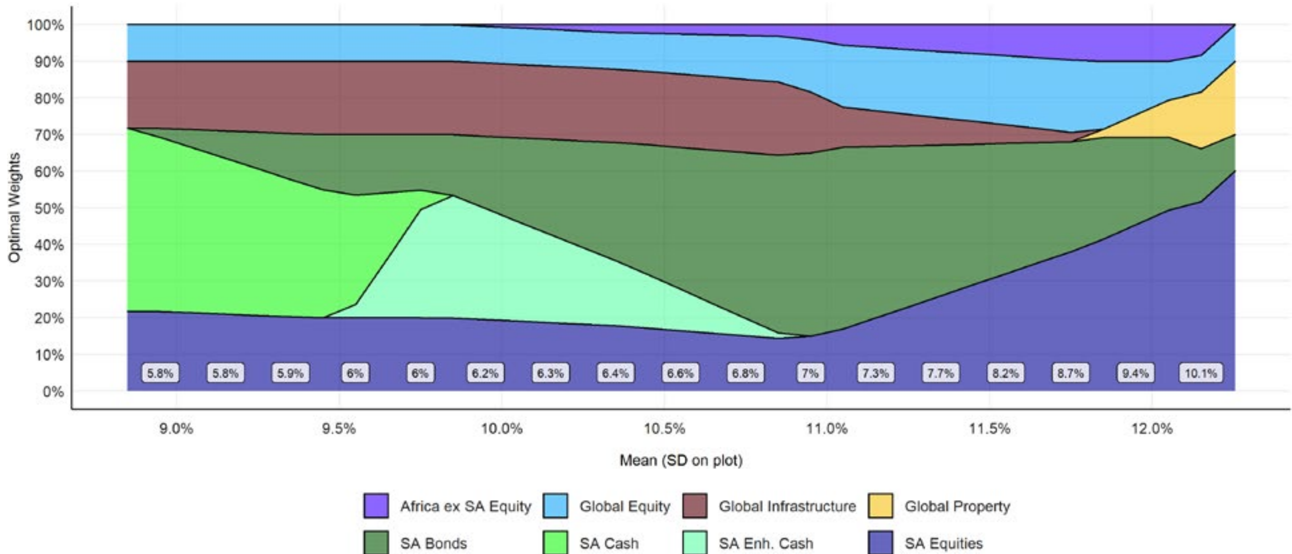
Historic Returns in ZAR Aug 2006 - Apr 2022								
Asset class	Benchmark	Historic returns (since Aug 2006)	Historic volatility (since Aug 2006)	Historic returns (past 10 years)	Historic volatility (past 10 years)	Nominal Forecast	Real Forecast
Local							
SA Inflation	CPI	6.37%	-	6.12%	-	5.25%	-
SA Equities	FTSE/JSE Capped SWIX	11.15%	14.47%	9.83%	13.13%	12.90%	7.56%
SA Bonds	FTSE/JSE ALBI	8.40%	7.56%	7.77%	7.95%	10.00%	4.75%
SA ILB	FTSE/JSE IGOV / S&P SA ILB 1+Year	7.89%	6.06%	6.07%	6.73%	8.45%	3.20%
SA Property	FTSE/JSE SAPY	9.94%	19.84%	4.55%	21.26%	11.30%	6.05%
SA Cash	SIM Enhanced Yield	7.80%	1.24%	7.36%	1.48%	6.75%	1.50%
SA Cash	STeFI Composite	6.92%	0.54%	6.12%	0.36%	5.75%	0.50%
USD/ZAR	WM/Reuters London 4PM	5.44%	16.64%	7.40%	15.24%	3.50%	-
Global							
Global Inflation		-	-	-	-	2.80%	7.25%
Global Equities	MSCI ACWI (NDUEACWF Index)	12.41%	13.57%	17.29%	13.36%	8.45%	6.70%
Global Bonds	Bloomberg Global Aggregate (LEGATRUU Index)	8.16%	15.08%	7.78%	14.07%	2.10%	0.35%
Global ILB	Bloomberg World Government ILB (BCIW1A) / Bloomberg US Government ILB (BCIT1T)	9.14%	14.55%	9.35%	14.15%	1.40%	-0.35%
EM Debt	J.P. Morgan EMBI Global Core (JPEICORE)	10.91%	12.76%	10.51%	12.41%	5.80%	4.05%
Global HY Credit	Bloomberg Global High Yield Index (I.G3OTRUU Index)	11.87%	12.93%	12.07%	12.35%	4.90%	3.15%
Global Cash	Secured Overnight Financing Rate (SOFR)	6.68%	16.69%	8.18%	15.26%	2.00%	0.25%
Global Property	FTSE EPRA/NAREIT Developed Dividend+ (TENGDNU) / FTSE EPRA/NAREIT Global (RNXG)	10.31%	16.53%	13.86%	14.72%	8.10%	6.35%
Global Infrastructure	FTSE Global Core Infrastructure (FGCIITU Index) MSC! EFM Africa Ex SA (M1FMEAFZ Index) Bloomberg Commodity Index (BCOMTR Index)	13.66%	13.61%	16.79%	13.05%	7.30%	5.55%
Africa ex SA Equities	MSCI EFM Africa Ex SA (M1FMEAFZ Index)	7.04%	20.65%	8.91%	20.11%	9.00%	7.23%
Global Commodities	Bloomberg Commodity Index (BCOMTR Index)	4.43%	16.40%	7.13%	14.42%	0.00%	-1.75%

The charts below highlight that on both an expected and historical (sampled) ZAR return basis over a full period (pre-GFC since August 2006) and over the past 10 years, a significant allocation to local bonds and equities is favoured over global equities when using a utility-based mean-variance optimiser. This despite the attractive returns offered by offshore assets over the past 10 years.

It also highlights how an asset like Global Infrastructure is preferred throughout most of the risk-return spectrum, despite having a lower expected nominal return forecast than Global Equities. This speaks to the value added by including assets with distinct return profiles in a multi-asset blend.

Stacked Optimal Weights Comparison

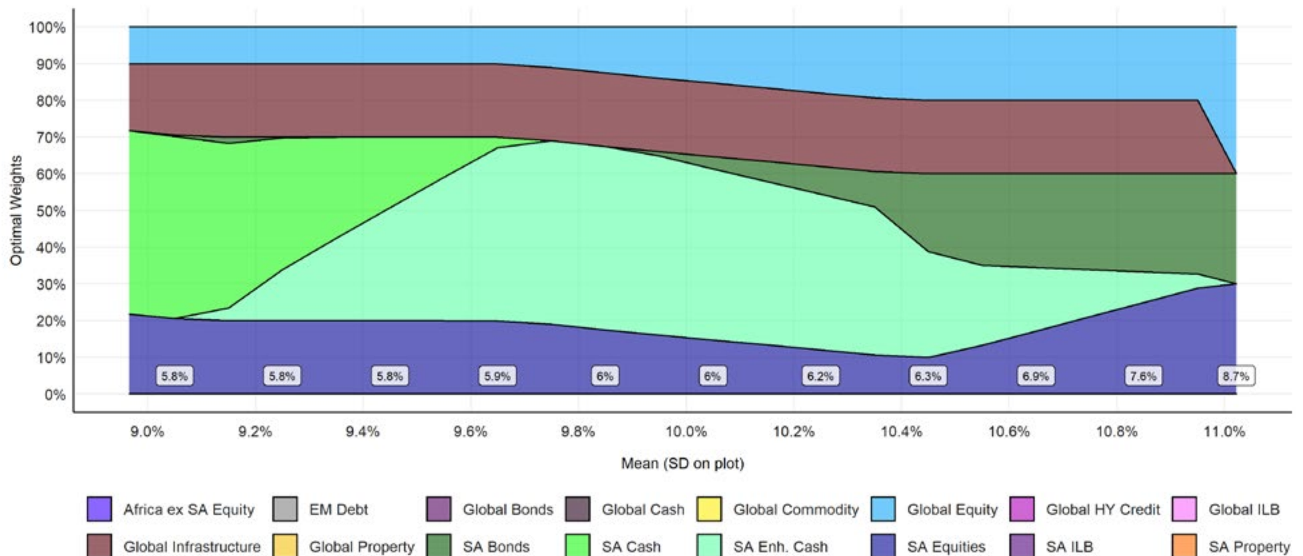
Past 10 Years



HE_EB (Past.10Y): Local CPI: 5.25% | USDZAR: 3.5% | Sample est.start date: Apr 2012

Stacked Optimal Weights Comparison

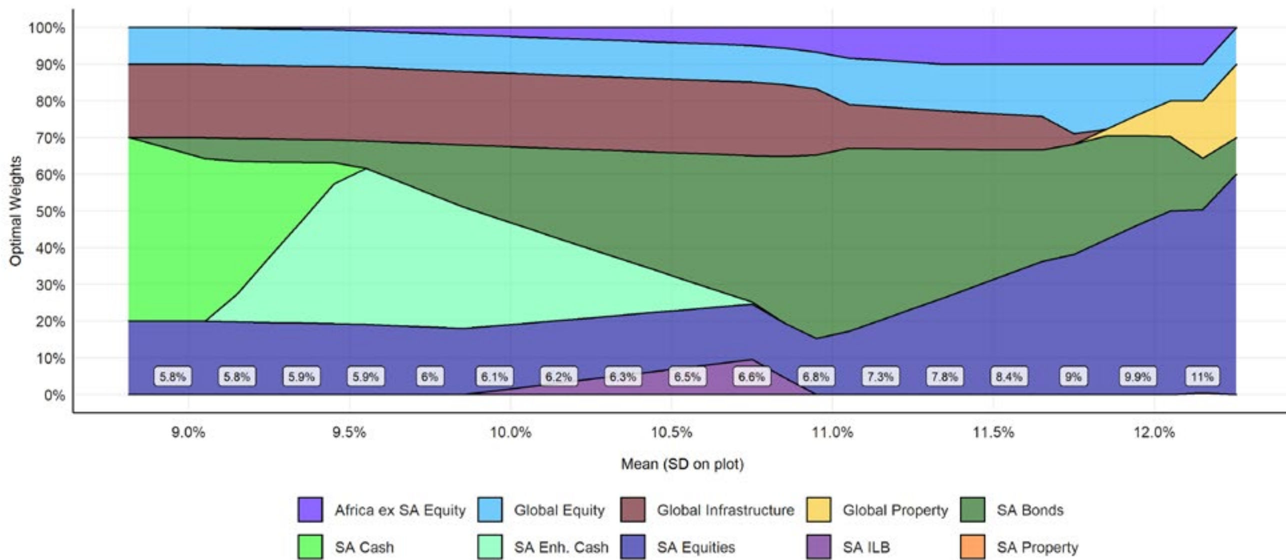
Sample Means: Past 10 Years



HE_EB (Past.10Y): Local CPI: 5.25% | USDZAR: 3.5% | Sample est.start date: Apr 2012

Stacked Optimal Weights Comparison

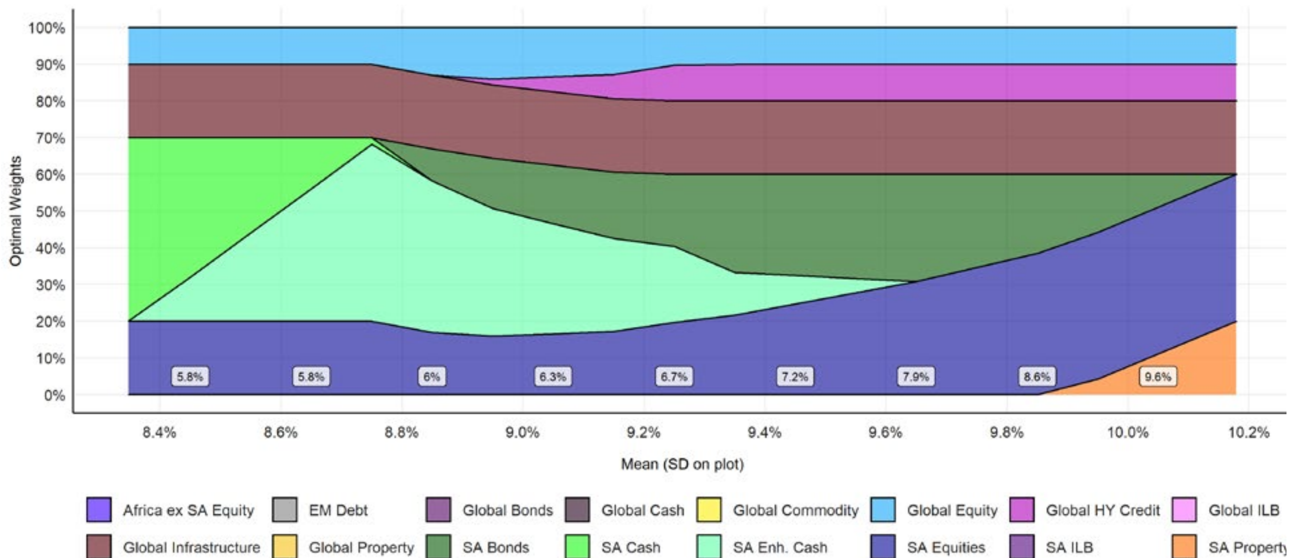
Full scenario



HE_EB (Full.Scenario): Local CPI: 5.25% | USDZAR: 3.5% | Sample est.start date: Aug 2006

Stacked Optimal Weights Comparison

Sample Means: Full scenario



HE_EB (Full.Scenario): Local CPI: 5.25% | USDZAR: 3.5% | Sample est.start date: Aug 2006

The interesting question then follows as to why an optimisation process would allocate more resources to a lower-return asset with a comparable risk profile (as seen with Global Equity and Global Infrastructure). The reason lies in the interaction between asset classes that ultimately provide the diversification in a multi-asset portfolio. We want assets that are either negatively or lowly correlated with each other to help smooth out the returns for the fund. It is not simply about identifying and holding the assets with the highest expected returns, but rather about building portfolios with return profiles that serve to offset individual drawdowns, thereby reducing overall portfolio return variability.

To this point, an optimiser might even prefer a lower-yielding, more volatile asset if it leads to improved overall portfolio stability. This is the nuanced insight these statistical methods offer portfolio managers, as it focuses on the whole, not simply the individual asset.

The next step within our process is to calculate the mean-variance frontiers by the asset universe considered. We impose feasible regulatory constraints, allowing some scope for weights to drift. Below we show the output of the high equity frontier, using our real return forecasts above. In all instances, we use real ZAR forecasts, converting the USD returns appropriately considering our USD/ZAR projection.

We considered both our nominal forecasts (as detailed in the historical returns table above) as well as in-sample geometric return estimates to gain a sense of what constitutes an optimal combination. We also considered different periods for constructing the covariance structure, all in an effort to ensure process robustness. The results of this are discussed next.

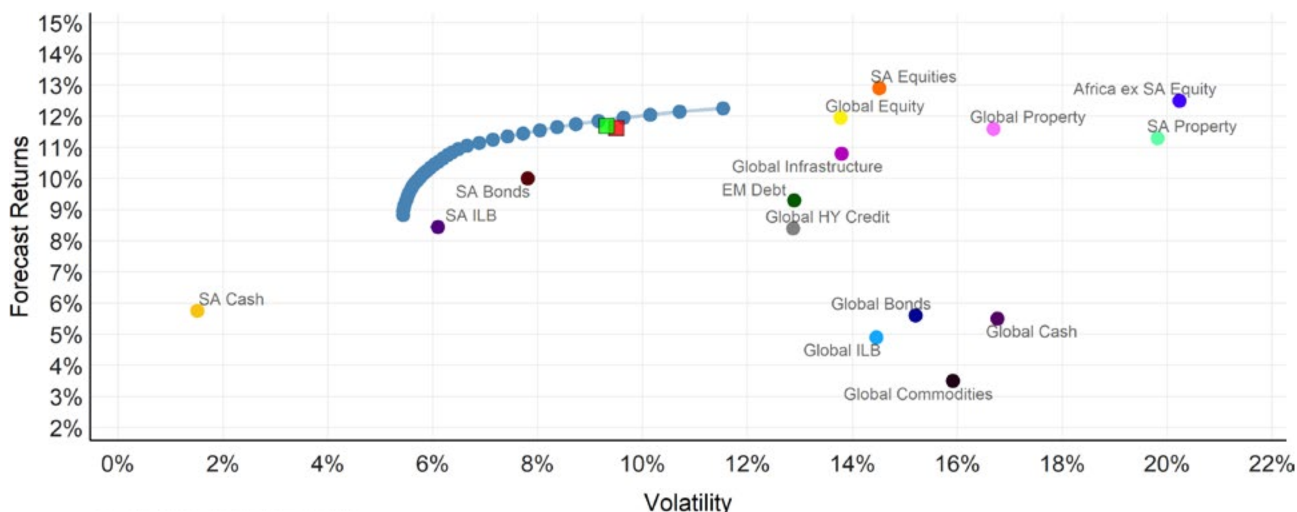
Mean-Variance Optimisation Results

It is interesting to note from the figures in the chart below that global high-yield credit instruments offer significantly less diversification and upside potential compared to global equities than one might expect. Also note that we considered several asset classes that may or may not be included in our balanced fund range (notably, global infrastructure, global property, Africa ex SA equities, global commodities and high-yield credit), but which did form part of our analysis.

For example, we find that global infrastructure and property offer a more distinct return profile, which leads to improved overall diversification. Furthermore, global infrastructure offers a more defensive equity exposure with a natural hedge against inflation due to the way fees and revenue are typically structured for infrastructure assets.

Mean-Variance Plot: Nominal Forecasts

High Equity Strategic Asset Allocation
Current: red (Risk Adj. Ret: 1.22) | Revised: green (Risk Adj. Ret: 1.26)



Sample start date: Aug 2006

In the above figure, the blue frontier indicates the most efficient combination of assets considering our risk and return forecasts in conjunction with appropriate constraints. We also superimpose our current Satrix Enhanced Balanced Tracker portfolio weights (Current: red box) and a potential revised SAA (Revised: green box) utilising some of the insights from our SAA review process.

This clearly shows that our revised holdings, which will include both infrastructure and property as well as an overall higher allocation to offshore assets, produce improved risk-adjusted returns and move upward and left on the efficient frontier. The same can be seen when using past geometric returns, although these are not included for reasons of brevity.

Conclusion

In this short report we detailed our process and insights on what is considered when we make changes to the strategic asset allocation (SAA) of the Satrix Enhanced Balanced Tracker Fund, and the value such a process can offer.

We combine building blocks of essential asset class indices and blend them in an optimal allocation. This allocation is a function of long-term prospective returns, appropriate risk budgets and portfolio construction insights, all of which inform an optimal mix.

For more information on our SAA process and choice of assets, please contact us.

Disclaimer

Satrix Managers (RF) (Pty) Ltd (Satrix), a registered and approved Manager in Collective Investment Schemes in Securities. Collective investment schemes are generally medium- to long-term investments. Past performance is not necessarily a guide to future performance, and the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager on request. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Performance is calculated for the portfolio and the individual investor performance may differ as a result of initial fees, actual investment date, date of reinvestment and dividend withholding tax. The Manager has the right to close the portfolio to new investors in order to manage it more efficiently in accordance with its mandate. A copy of the Performance Fee Frequently Asked Questions can be obtained from our website: https://satrix.co.za/. Annualised return is the weighted average compound growth rate over the period measured. If performance fees are charged, the following performance fee clause must be added: A copy of the Performance Fee Frequently Asked Questions can be obtained from our website: https://satrix.co.za/

KEEPING THE POT BOILING

Danie van Zyl
Head: Smoothed Bonus Centre of Excellence
Sanlam Corporate: Investments

The National Treasury, with prodding from the retirement industry, has made retirement reform a priority in recent years to help members achieve better financial outcomes in retirement. The aim is to encourage members to save more for retirement and use their savings to secure an income in retirement.

To achieve this goal, it is time to address the elephant in the room – the lack of preservation of retirement benefits when members lose or change jobs. We have highlighted the clear link between poor retirement outcomes and members not preserving their retirement savings at numerous Sanlam Benchmark Symposiums. Speaking to international counterparts, many struggle to understand why we allow a system where the majority of members access all their retirement savings when losing or changing jobs. It would seem like we are trying to fill a retirement pot with numerous holes in it.

However, there are reasons for allowing this. In South Africa we do not have an adequate safety net to support members should they lose their job and struggle to find new employment; our Unemployment Insurance Fund provides benefits for a limited period only. Many members have to rely on their retirement savings to see them and their families through these periods of financial distress. Even more alarming is when members resign solely to access their retirement savings, which defeats the purpose of saving for retirement.

Previous Benchmarks Surveys have also highlighted that many members also cash in their retirement savings when changing jobs for other purposes, despite the punitive withdrawal tax rates that apply and fully knowing that this would have a negative impact on their eventual retirement outcome.

Why would members do this? Do members value the ability or option to access their retirement savings and worry that they may need their retirement savings later? Or more plainly – if they do not access their savings now when changing jobs, they may not get a chance to do so if they face financial distress?

In an attempt to find the right balance between increasing the preservation of member retirement savings and still allowing some access to these savings during periods of financial distress, the National Treasury is proposing a two-pot solution, combining a retirement pot that cannot be accessed before retirement with an access pot that can be accessed once a year if needed.

The two-pot proposal

A discussion paper released by the National Treasury outlines a proposal to split a member's future retirement savings into two pots, namely:

A retirement pot, consisting of two thirds of a member's contributions. This pot will only be available at retirement and must be used to buy a monthly pension.

An access pot, consisting of the remaining third of a member's contribution. This pot will be accessible once a year for short-term financial relief.

The hope is that when members know that they will still be able to access a portion of their retirement savings in future, even if still working, it will alter member behaviour and decision making. With easily accessible and understandable information as well as counselling from their retirement funds, members can become more empowered to make better choices.

But what do members think? The results of our Benchmark Consumer study indicate that there does not seem to be much appetite for this proposal currently. While 52% of respondents indicated that they are aware of the proposal, 56% indicated that they do not approve of it as accessing your retirement savings will likely lead to having insufficient savings at retirement (a retirement fund is for retirement and not emergencies!). Furthermore, only 31% indicated that they would access part of their retirement savings under the two-pot proposal – although this result contradicts the experience of retirement funds when members change employment.

52% of respondents indicated that they are aware of the proposal

56% of respondents indicated that they do not approve of the proposal

31% of respondents indicated they would access part of their retirement savings under the two-pot proposal

It is clear that there is still quite a bit of uncertainty regarding the proposal. When discussing the investment impact with asset consultants, 9 out of 15 indicated that they believe a retirement fund should change its investment strategy to cater for the access pot, with more liquid assets likely to be used for this portion. However, one would need to balance this with possibly lower investment returns over the long term. For those members with no intention of touching their access pot, there seems little reason to differentiate the investment strategy between the retirement and access pots. Trustees would need to carefully consider the divergent needs of different fund members in making these investment decisions.

While it may seem counter-intuitive, initial modelling suggests that the proposed two-pot system, even allowing for members to regularly access their access pot, will result in significantly better retirement outcomes for most retirement fund members compared to the status quo.

The introduction of the two-pot proposal will significantly complicate the administration of retirement funds, but over the long term the likely outcome may well be worth the effort, allowing members to retire with confidence.

EXITING INTO A NEW TOMORROW

Blanche Dirk
Senior Business Intelligence Analyst
and
Koketso Mahlalela
CVP Actuary
Sanlam Corporate

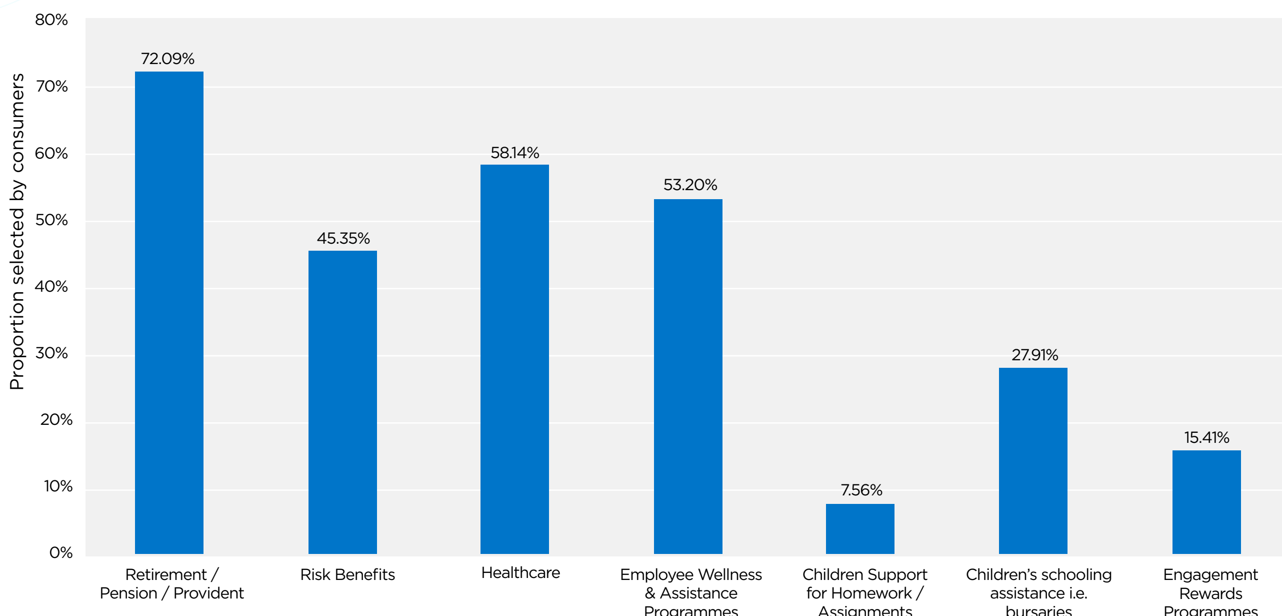
Envision a New Tomorrow: Healthcare; Wealthcare; Selfcare

Employees work hard throughout their careers to be able to provide for themselves and their families at their best level of affordability. Employers also provide their employees with a suite of benefits that enable this career journey to be fulfilling, where the intention is for the member to retire comfortably.

As part of fulfilling their employee value proposition (EVP) to employees, employers are focusing on providing retirement, pension and provident fund benefits.

The graph below, based on The Consumer Studies, illustrates that the majority of consumers (72,09%) have retirement savings as part of their employee benefits.

Employee Benefits Provided by Employers



However, many South Africans struggle to put good retirement saving habits in place. The COVID-19 pandemic, together with the negative impact on the economy, has also once again emphasised the importance of saving for retirement. Members should therefore carefully consider the long-term implications regarding their retirement savings when changing jobs (due to resignation, dismissal or retrenchment). This means a member needs to start envisioning a new tomorrow.

Members accessing their retirement savings before retiring face significant consequences, as most South African income earners use their employer's retirement fund as their only savings vehicle for retirement. Hence, wealthcare becomes key in this instance. The choices they make today could either allow them to retire with confidence or put them in a difficult position when they reach retirement age. Confidence Rule 43: "If you want to stop working one day, work on saving today."

In this article, we share insights from The Consumer Studies and our own Sanlam Corporate experience, focusing on members who have withdrawn from the funds under our administration. This usually occurs when members change jobs and at retirement. We also share the impact of benefit counselling on members reaching retirement goals.

Wealthcare when changing jobs

People typically change jobs between five and seven times throughout their career, and the conundrum faced by many is what to do with their retirement savings at that stage. While changing employers may be exciting and beneficial for a member's career, it could lead to unforeseen consequences for their retirement savings strategy. When a member withdraws from the fund, i.e. when changing jobs, he/she would have the following options with regard to the benefit that is paid out:

- Transfer the benefit to a new employer's pension or provident fund
- Transfer the benefit to a retirement annuity fund
- Transfer the benefit to a registered preservation fund
- Withdraw the benefit in a cash lump sum (subject to tax)
- May have the option of leaving the benefit amount in the fund, as a paid-up benefit until the member retires (if the rules of the fund allows him/her to do so).

It can be tempting for the member to cash out his/her retirement savings when changing jobs as it might seem the best solution at that point in time. However, it could have a devastating effect on the member's long-term retirement plan. Hence, the best option for the member would be to transfer the funds to either the new employer's pension or provident fund, a retirement annuity or a preservation fund.

Fortunately, it seems that some South Africans are starting to realise the importance of saving for retirement based on consumer sentiments. According to our Benchmark 2022 research, at least 42% of surveyed consumers indicated that they would NOT cash in their retirement fund benefits when changing jobs. Further to this, only 9% indicated that they would consider taking their retirement benefit as a cash lump sum.

Exiting to reduce debt?

From the study, we found that 73% of consumers ended up with reduced household income. This would have occurred in various ways, including retrenchment, forced unpaid leave from struggling employers, or even through the loss of family members and their income.

Thus, with the challenge of members having reduced income due to COVID-19 economic impacts, 30% of surveyed consumers noted that they had started to reduce their debt as a means of dealing with the financial pressures that had emerged. Some members would even consider tapping into their retirement savings as a means of reducing some of these pressures, if an opportunity to do so presented itself.

Interestingly, when consumers were asked: "Would you consider using your retirement savings to reduce your debt?", 39% of surveyed consumers indicated that they would elect to cash in their retirement benefits and use some of these to reduce a portion of their outstanding debt. Further to this, 20% said they would use all of their retirement savings as a means of reducing debt.

These are alarming sentiments to note, especially when considering wealthcare leading to a new tomorrow. For the consumer it has become evident that dealing with the financial woes of today takes precedence over thinking about future financial outcomes. This is where financial education becomes crucial.

The Tax Story

Cashing out your hard-earned retirement nest egg

When exiting a retirement fund, it is very important for members to consider the tax implications when taking their retirement benefit as a cash lump sum prior to retirement.

The tax payable on lump-sum withdrawals is calculated as follows:

Taxable income (R')	Rate of tax (R')
1 – 25 000	0%
25 0001 – 660 000	18% of taxable income above 25 000
660 001 – 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

Any retirement savings taken as a cash lump sum prior to retirement will reduce the cash portion that can be taken at retirement. Tax payable at retirement on a cash withdrawal will be high if the full or part of the R500 000 tax-free lifetime limit was used prior to retirement.

We found that due to economic pressures many members tend to take their retirement savings (i.e. pension and provident funds) in cash despite the tax implications involved. Based on the survey results, approximately half (48%) of the respondents were aware of the tax implications linked to cashing out retirement benefits, 40% were unaware and the remainder were unsure.

Tax at retirement

Once a member reaches retirement, there are further tax implications to consider.

According to the current retirement rules:

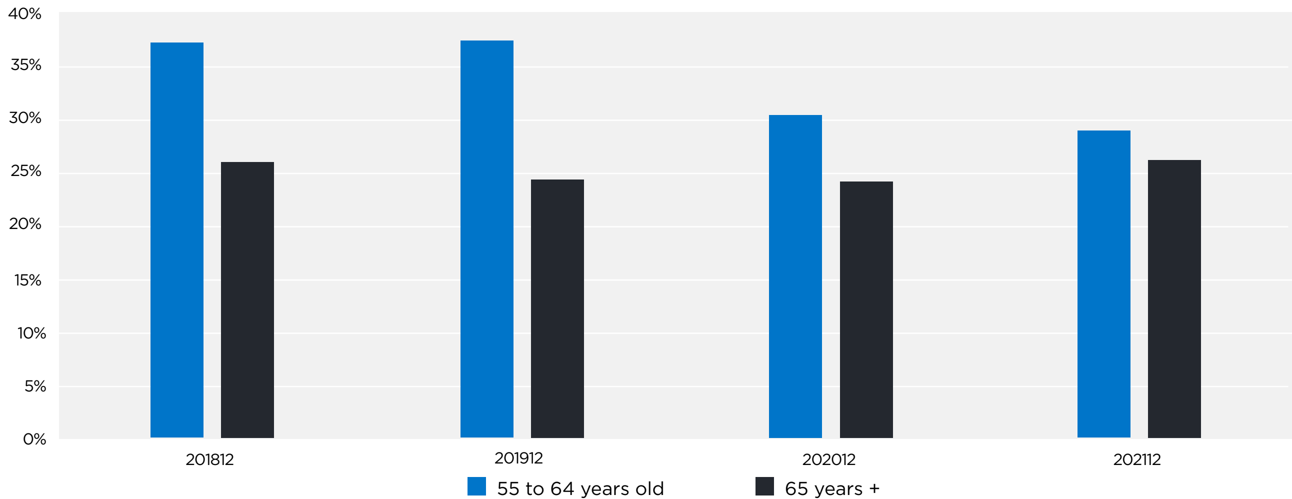
- Individuals who have accumulated R247 500 or less by the time they reach retirement, may select to cash out all their retirement savings when they reach retirement age.
- For the remainder of the individuals:
  - up to a third may be taken as cash; and
  - the remaining two thirds would need to be used to purchase an annuity, i.e. a life or living annuity.

The cash lump sum withdrawn at retirement would be taxed as follows:

Taxable income (R')	Rate of tax (R')
1 – 500 000	0%
500 001 – 700 000	18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

From our own experience, we have found that from a fund value percentage, members who are in the younger retired age band (i.e. 55 to 64 years) are commuting more to cash vs those who are 65 years and older.

The graph below demonstrates the trend we have observed over the past four years.



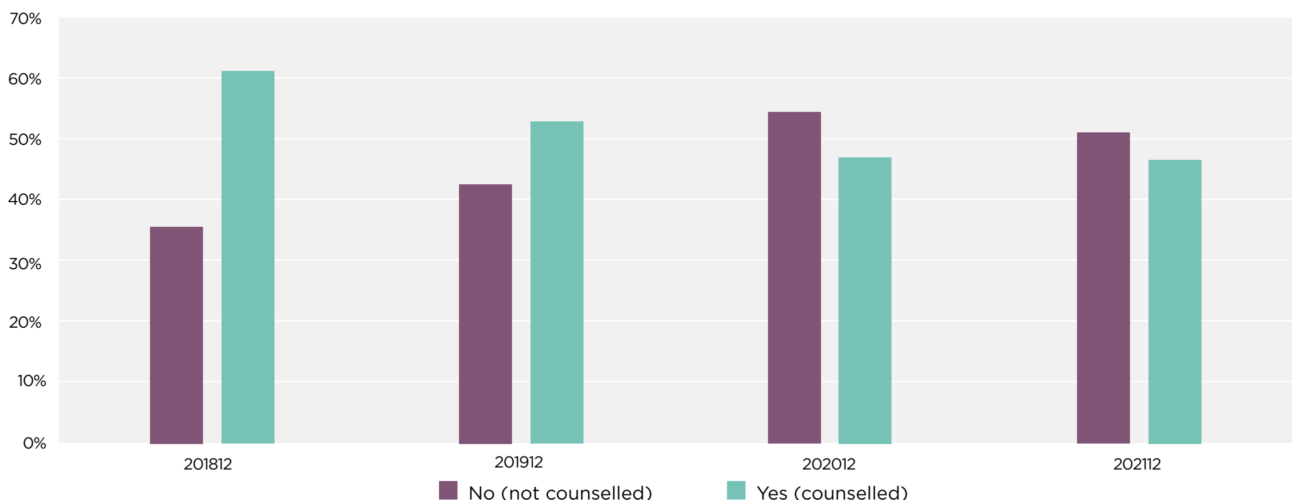
Benefit counselling – painting a new tomorrow

If you follow the research focused on retirement benefits, including Sanlam's Benchmark 2022 research, you will be well aware that it is not always easy to achieve retirement savings goals. As they say, it is always easier said than done. It is commonly known that only 6% of South Africans actually get to retire comfortably.

A big factor that contributes to this is the lack of financial literacy. Retirement benefit counselling therefore plays a pivotal role in helping members understand the options related to retirement funds and drives more informed decision making.

Benefit counselling when changing jobs

The graph below illustrates how Sanlam's retirement benefit counselling division, Individual Member Support (IMS), impacts members' decisions when exiting their retirement funds. The portion taken in cash at withdrawal has steadily been decreasing over time for those members who have been counselled. As from 2020, we have noted that members who have been counselled are also taking a lower portion in cash in comparison to those who did not receive counselling.



One of the interesting insights we have found in the consumer studies was the minimal assistance members received on transfer to new employment. This is concerning, considering the employee sentiment would be to even increase retirement contributions had they had the opportunity to do so.

The picture below summarises the observed results from the study:

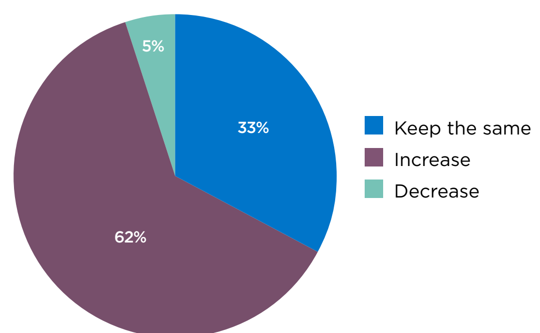
- Sixty-three per cent of consumers said they were NOT provided with HR support at withdrawal.
- Seventy-five per cent said their new employer did NOT encourage transfer of retirement savings from their previous employer.
- Sixty-two per cent would increase their retirement contributions if they were able to afford to do so.

PROVIDED MEMBER SUPPORT ON EXIT

Members need more support to reach better retirement outcomes

- From the consumer study we note that **not** many members are provided with support at withdrawal from HR (i.e.63%)
- New employers **do not encourage** transfer of retirement savings from previous employer (75%)
- Most employees **would increase their** current contribution to their retirement funds if they could financially do so
  - Hence provided support to members is crucial to drive better financial outcomes

Sentiments on change in Retirement Contributions

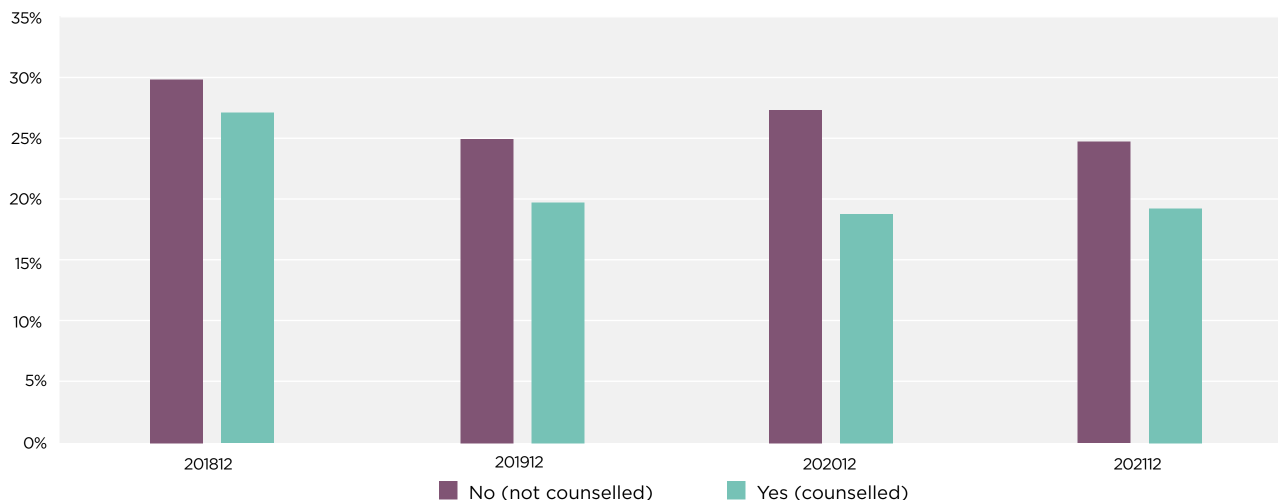


What we can gather from these consumer sentiments is that employers need to closely support members at withdrawal to achieve better financial outcomes. Encouraging benefit counselling is one of the ways employers can support members. Allowing for this would create a holistic value proposition for the employee.

Benefit counselling at retirement

The graph below demonstrates the impact IMS has had on members over time. We note that counselled members take out less in cash – ultimately setting themselves up for a new tomorrow with less financial strain in their golden years.

Fund value % taken in cash (Retirement)



What next ...

There is a strong need for members to be financially educated throughout their careers so that there is a good understanding of any action or reaction in the journey to and at retirement.

Benefit counselling is one of the key drivers we have in place at Sanlam to envision a new tomorrow for the member – a tomorrow that will ultimately lead to better retirement outcomes.

It is essential that members keep top of mind that wealthcare starts today. This means remaining committed to retirement savings and not cashing out until retirement. And since life does have its hurdles, throughout the members' careers, being aware of the tax implications is key.

Employees having more engagement with their employee benefits is a sure way to understand how they are tracking in reaching their retirement goals. Members need to be supported by their employers in making the right decisions. Let's all get on board as we envision a new tomorrow.

SELFCARE FOR RETIREMENT

Karen Wentzel
Head: Annuities
Sanlam Corporate: Investments

In the world of employee benefits, selfcare is taking steps to improve retirement outcomes by putting in place financial contingencies that are intended to have positive outcomes leading up to retirement and beyond.

The biggest gift you can award yourself is financial freedom in retirement. As an insurance industry, our goal is to ensure every client and every fund member are able to accumulate wealth to secure a better quality of life, with flexibility at all times.

Your retirement savings should be your biggest asset when you reach retirement. Most people don't spend enough time planning to build up these assets. An easy number/measure for members to understand the exact amount that should be saved, is to express your retirement savings as a multiple of your current salary at different points in your life.

The question is: What multiple of current salary should a member save, assuming a retirement age of 65 years, with the long-term assumptions below?

- A member saves 15% per year of annual salary (including the annual bonus/13th cheque)
- Investment returns of 10% per year
- Salary increases of 6,5% per year
- In the case of a married couple, both members contribute towards retirement savings

Based on the assumptions above and a goal that a member should have a multiple of 15 times his/her final salary saved at retirement, the following table sets out some goalposts along the road to retirement:

Years worked	Multiple of current salary saved
5	1,2
10	2,3
15	3,7
20	5,3
25	7,2
30	9,4
35	12,0
40	15,0

Members may consider not only saving in a traditional pension and provident fund or retirement annuities, but also supplementing their retirement savings with the following financial instruments:

- tax-free investments
- unit trusts
- online share account or
- government retail bonds,

which will give them more flexibility in terms of investment choice and accessibility to their investment.

Advantages and disadvantages of alternative products

Tax-free Investments were introduced in March 2015 as an incentive to encourage household savings.

- ✓ No income tax, dividends tax or capital gains tax is payable on the returns from these investments.
- ✓ A range of investments are available, including investments in fixed deposits, unit trusts (collective investment schemes), retail savings bonds, linked investment products and exchange-traded funds (ETFs) that are classified as collective investment schemes.
- ✗ You can contribute only a maximum of R36 000 per tax year (annual limit).
- ✗ There is a lifetime limit of R500 000 per person.
- ✗ If a person exceeds the limit, there is a penalty of 40% of the excess amount.

Unit trusts are portfolios of assets, for example equities, bonds, cash and listed property, in which investors can buy units. This investment vehicle allows investors to spread their risk, while enjoying the benefits of professional fund management.

- ✓ Unit trusts are flexible investments with a wide variety of options in which to invest.
- ✓ They help with diversification of investments and allow 100% investment in equities.
- ✓ Unit trusts can be set up as a regular savings programme.
- ✓ Your resources are pooled with those of other investors, allowing you to make investments that are not possible as an individual investor.
- ✓ You get the benefits of greater economies of scale, such as reduced transaction costs.
- ✗ There are costs over and above those you'd pay if you were investing directly.
- ✗ There is no tax incentive on unit trusts.

An **online share account** is an investment platform for trading (buying/selling) financial securities or currencies with the use of a brokerage's internet-based trading platform.

- ✓ Easy access to trading shares in real time
- ✓ It is easy to open and manage an account without geographical limitations.
- ✗ Online trading is risky if the investor doesn't have adequate knowledge of financial markets.
- ✗ There is no tax incentive on unit trusts.

Government retail bonds are a low-cost way of buying bonds, with one of the advantages being that the investment can be as low as R1 000, with the investment term being 2, 3 or 5 years. Inflation-linked government retail bonds are also available for investors who are worried about inflation.

- ✓ Government retail bonds are a low-risk investment option as you are lending money to the government, with the chances of the South African government defaulting on this loan being low.
- ✓ Retail bonds are easy to buy on the government retail bonds website, or at the Post Office and branches of Pick n Pay, or over the phone.
- ✓ The return on government retail bonds is known in advance and the investor will know exactly what income to expect over the term.
- ✗ There is no tax incentive on retail bonds, except if the bonds are part of a tax-free savings account.

Tax incentives

All contributions to pension, retirement annuity and provident funds can be deducted from the individual's taxable income. The deduction is capped at a rate of 27,5% of the greater of remuneration and taxable income, to a maximum amount of R350 000 per year. Contributions made by both an employer and the employee are deemed contributions made by the employee and are thus part of the deductions.

Despite the benefits of investing in a tax-free savings account, your pension, retirement annuity and provident funds provide better tax savings, because contributions to these funds are tax-deductible to a maximum of R350 000 per year.

When choosing your retirement investment, it is important to consider the following three factors:

- The investment vehicle (characteristics and tax treatment)
- The underlying investment options in the vehicle
- The after-tax investment return of the different investment options

It is important to review your retirement plan and investment options at least every 3-5 years, to determine whether your investment plan is still in line with your risk appetite. New-generation products should also be considered and compared to your current products.

In the instance of unemployment or when switching jobs, the most important rule to remember is to not withdraw your money, but to preserve it in a preservation fund. Once you cash out your savings, tax is payable if the savings exceed the tax-free limit. Although the cash lump sum may bring temporary financial relief, it will be very difficult (close to impossible) to play catch-up if you start saving later. The late starters will need to save much more every month. The following table sets out the percentage of salary needed to be saved if you are starting to save at later ages:

Start saving at age	Percentage of salary needed to be saved
25	15%
35	24%
45	43%
50	60%

Thus if you cash out your retirement saving at age 45 when changing jobs, you will need to contribute 43% of your salary when you start a job again at the age of 45 to retire at age 65 with financial freedom.

For entrepreneurs who have started their own businesses or somebody who has become self-employed with unpredictable pay cheques, consider committing to a lower % saving in your provident fund, e.g. 10%, and try to save the extra 5% in other more flexible financial vehicles where your contributions can fluctuate. You could also consider building up a share portfolio. Make sure to make full use of the tax advantage of investing up to 27,5% or R350 000 per year.

Investing for retirement Is selfcare for the "future you". Make sure you spend at least an hour a year reviewing your retirement planning, and invest for a BETTER YOU.

ENABLING FINANCIAL ADVISORY SERVICES FOR YOUR MEMBERS AND EMPLOYEES

Maxwell Mojapelo
Head of Business Development
Graviton Wealth Management

Establishing the need for financial advice

Over the past six decades, we have witnessed the global retirement market transition towards a defined contribution-dominated system whereby members have to accumulate their own assets, and the employer not guaranteeing any pension but rather retirees having to use their accumulated savings to purchase an annuity that would provide income during retirement. The regulator and industry stakeholders have concentrated all their efforts solely on one part of investors' retirement journey – the accumulation of retirement savings, but less so on ensuring financial security and confidence when members exit, or even more distressingly, after the payment of benefits to beneficiaries in the event of a member's death.

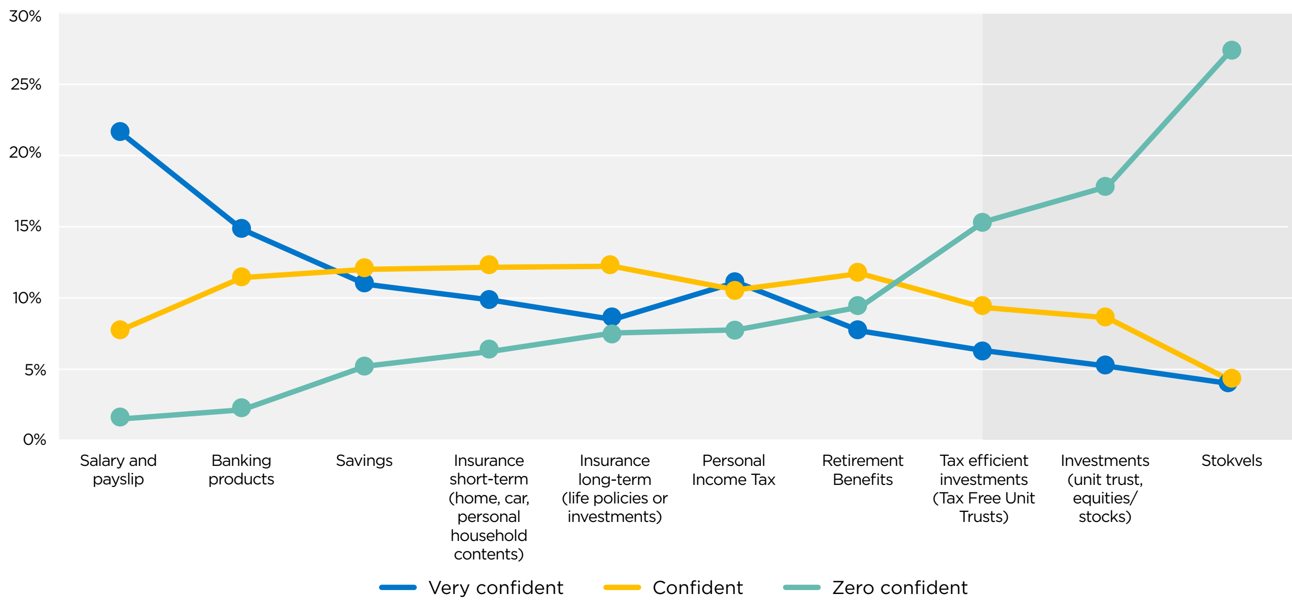
We have over the years seen and welcomed structural reform that has recognised and addressed the needs of the individual within the savings ecosystem:

- The Standard on Living Annuities issued by the Association for Savings and Investment South Africa (ASISA);
- Regulation 28 of the Pension Funds Act, which aims to mitigate the investment risk at a member level as opposed to the Prudential Investment Guidelines; and
- The Default Regulations of the Pension Funds Act.

However, there is still scope for further improvements given that guidance and advice are institutionally focused through benefit consultancy services, whereas individual financial advice remains an ancillary service to the retirement fund industry as it falls outside of the typical fund governance realm.

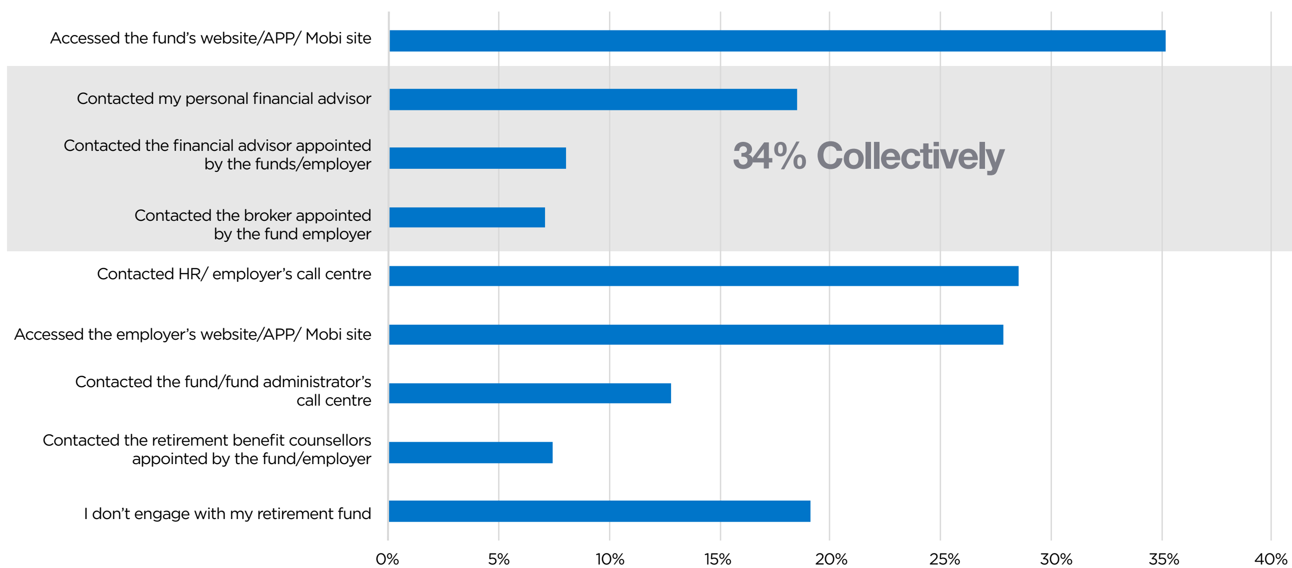
Interestingly, this year's Sanlam Benchmark™ Survey paints a picture depicting a substantial need for an increased focus on providing individual guidance and advice. For starters, where there are infrequent engagements, there is a general lack of confidence in terms of knowledge of financial products and services such as retirement benefits and investments compared to salary/payslip and banking products. Respondents who were confident or very confident about their knowledge in terms of retirement benefits, investments, income tax and tax-efficient investments ranged between 5% and 11%.

Question: How confident are you about your knowledge relating to each of the following?



Surprisingly, for those respondents who engaged with their retirement benefits, the channel that came in only second to the fund's website or mobile application in terms of accessing information on their benefits was, collectively, self-appointed and/or fund-appointed financial advisers – showcasing that this service is not only needed, but also aligned with the objectives of the retirement fund stakeholders.

Question: Where or how do you engage with your employee benefits or retirement fund?



Selecting a potential financial advisory service provider

Financial advisory and intermediary services are defined in the Financial Advisory and Intermediary Services Act of 2002 (FAIS Act) as the provision of recommendations, guidance or proposals in respect of the purchase of a financial product. The Retail Distribution Review goes further by making a distinction between the types of advisers:

- Independent advisers (who are free from product supplier influence and have adequate choice among suppliers);
- Tied advisers (who are obligated through contractual agreements, ownership or other relationships, to provide a specific product supplier's products only); and
- Multi-tied advisers (who fall in between the independent and tied advisers).

If trustees and employers seek to employ the services of a financial adviser, it is important to understand some of the key elements that define a high-quality, professional financial advisory service provider.

Advice process and scope of services

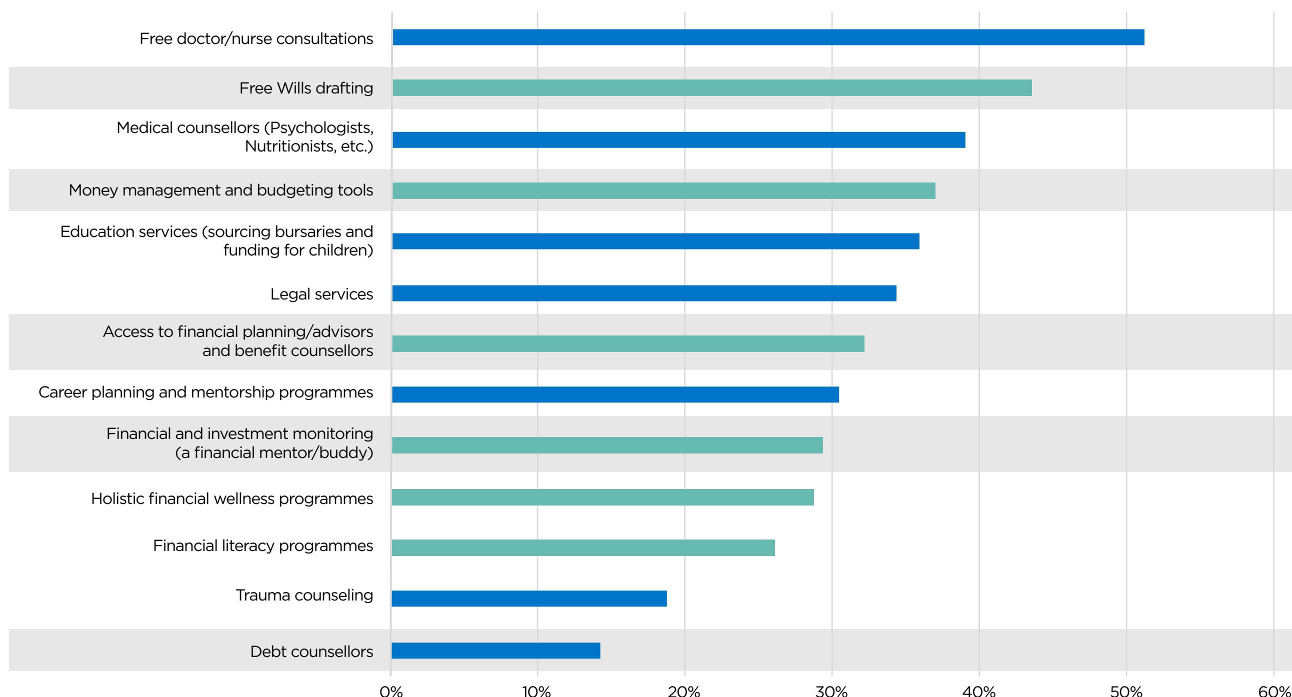
Advice processes may differ vastly across financial advisers, but the industry standard 6-Step Financial Planning Process is the benchmark process that was publicly promoted by the Institute of Advanced Financial Planners in 1983. Today, this is the de facto advice process being applied by most financial advisers. For the specific life stages of a client such as post-retirement planning, this process may have a key focus on the envisaged lifestyle, working back the risk required to immunise the client from the future cash-flow requirements, the risk capacities and tolerance to determine the correct investment and product strategies.

The scope of financial advisory services can differ greatly depending on the level of investment and complexity of the client's needs. However, as a basic requirement, trustees and employers can look to get the following services at the very least:

- Creating a holistic financial plan;
- Budgeting;
- Advising members on the default annuitisation and preservation strategies;
- Analysing the possibility of continuations of risk benefits;
- Conducting some form of estate planning, e.g. drafting a will; and
- A tax assessment of the various options available to a member or employee.

This is in line with the responses given in the Sanlam Benchmark™ Survey when participants were asked about the options they would be interested in if an employer provided holistic financial solutions.

Table 1: Should your employer provide you with an option of holistic financial solutions, which of the following would you be interested in?#



 # Members were allowed to make multiple selections.

Advice operations and systems

The compliance requirements for advice services are non-trivial due to the fact that any recommendation, however insignificant, could have dire consequences for the client's future. In addition, the protection of a client's personal and financial information is required by law and it is therefore important that trustees and employers have peace of mind that each adviser servicing their members and employers acts in compliance with the Financial Intelligence Centre Act (FICA) of 2001, the FAIS Act, and the Protection of Personal Information Act (POPIA).

Quality, professionalism and fair pricing

Assessing the quality of services provided is difficult and not unique to financial planning services. Although tenets such as responsiveness, reliability, tangibility and client testimonies are useful to assess the quality of the services provided, without reputable insights and demonstrable improvements in member or employee outcomes, the assessment of quality will remain subjective.

A big drive from the Retail Distribution Review of 2014 was to enhance the professionalism of the financial advisory sector, which included setting the bar for and enforcing licensing and registration requirements, professional training and competence requirements, proper management of conflict of interest, and treating customers fairly and acting in their best interest.

Another significant consideration is the pricing of services. Financial advisory services providers typically apply one or two types of charges: (i) initial fees – which are fees typically charged to recoup costs incurred in the planning phase, where the product doesn't require yearly reviews, and (ii) ongoing fees – which are typically fees charged as a percentage of the assets under advice to cover both the upfront analysis and continued reviews.

Footprint and multilingualism

All of the above will be futile in terms of improving the financial confidence of members if there isn't sufficient capacity within the financial advisory business to service each and every member or employee in the manner of their choosing, i.e. mode of communication – online vs. face-to-face, preferred language, etc.

Governing financial advisory services providers

Adherence to service level agreements

As with any service provider appointed to the fund or employer, the financial adviser is bound by a service level agreement (SLA) that captures the scope of services required, roles and responsibilities, disclosure of fees for the services provided and provisions for recourse on non-delivery or negligence.

Satisfactory compliance adherence

Although financial advisory and intermediary services are a part of the regulatory framework, trustees and employers may not automatically be required to demonstrate competence in this field. An analysis of a sufficient sample of Records of Advice or official reports from a compliance officer may, however, give much-needed insights.

Conclusion

We have established from the responses of the survey that there is a need for financial advisory services. The questions that remain are: (i) appropriateness of the service provider, and (ii) ensuring delivery of financial advisory services. In terms of appropriateness, we have unpacked issues such as the advice process, the quality of advice and footprint as key. Secondly, we have highlighted possible components of an SLA that will ensure delivery of desired services and compliance adherence.

RETIRING WITH CONFIDENCE ... INTERVENTION IN THE NICK OF TIME?

Justin Jacobs
Individual Member Support
Sanlam Corporate: Client Experience

For most of us the idea of retiring seems like a foreign concept. According to a study conducted in the US in 2021, the average person feels seven years younger than he or she really is.

The study posits that 77% of Americans over 40 feel younger than their actual age. I am not sure how true this holds for South Africans, but I pretty much feel closer to my younger self than any older version of me at any point.

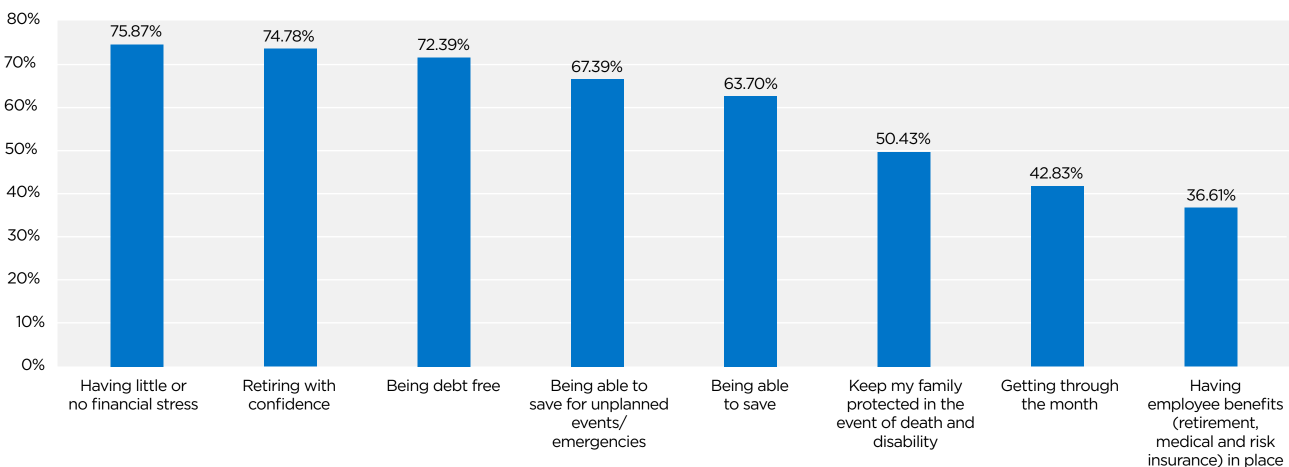
South Africans do, however, have real financial stress and worry much more about having enough capital at retirement to last throughout their golden years. Financial confidence means "retiring with confidence", according to 74% of surveyed retirement fund members. To South Africans, having financial confidence also means having little or no financial stress and being debt free.

When we unpack some of the attributes of financial confidence as cited in this year's Sanlam Benchmark research, **we see that at the core are two themes, one of which is access to resources, e.g. income or credit, and the other being behaviour or decision making**.

Being debt free or being able to save is an active choice on the part of the individual. One of the tools required is the discipline of budgeting and sticking to it. Most consumers say that they are unable to save because they do not have any money left at the end of the month. How many of us had a money box or piggy bank growing up? We were taught to save every coin we "earned" for chores completed or which we received as birthday gifts. Most of us were disciplined then in the art of saving for that special toy we wanted. Where did we go wrong as adults?

My premise is that our problems started on the consumption side of things. We desired more as we were increasingly exposed to a world of instant gratifcation. This ruined us, as we no longer have the patience to save one coin at a time. Through access to credit products we are able to satisfy an immediate want with resources we do not have. This resulted in almost three quarters of our population spiralling into debt beyond control.

What does being financially confident mean to you personally?



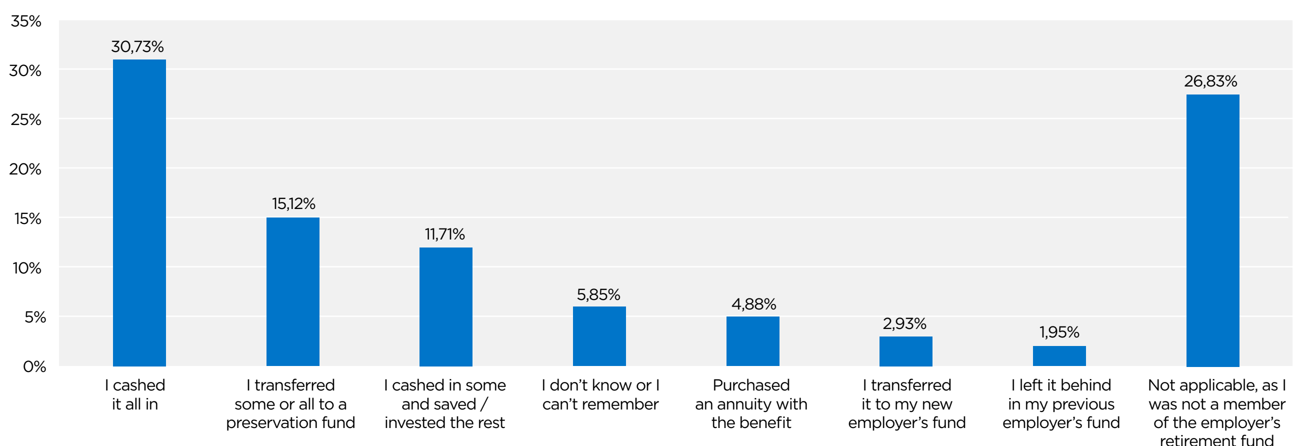
The ability to retire with confidence depends mainly on the amount of capital an individual has been able to accumulate during his or her working life. When members change jobs, they unfortunately dip into their accumulated capital, which was confirmed by 41% of members. This was done without any knowledge on how this decision may impact their retirement income.

Sharing of information during retirement benefit counselling engagements provide an opportunity to demonstrate the real effect that early withdrawal from accumulated retirement capital can have on future retirement annuity income.

When members fully understand the impact that any withdrawal will have on their retirement income, they are more likely to preserve that accumulated capital.

There are a number of reasons why individuals would take the cash option. The main reason is that people are cash-strapped and indebted, leaving them with little or no choice but to cash in their benefits.

When you left the company, what did you do with your withdrawal benefit at the time?



The advantage of retirement benefit counselling

As mentioned earlier, having access to relevant information has a direct influence on decision making or behaviour. Almost three quarters of the respondents in the consumer study report indicated that the new employer they had joined did not encourage them to transfer their retirement savings to the new employer's fund. A positive intervention could have far-reaching implications to ensure members reach their desired retirement goals.

Did the new employer you joined encourage you to transfer your retirement savings to the new fund?	%
Yes, the new employer provided information	15,35%
Yes, provided information and assisted with the process	9,90%
No	**74,75%**
Total	100%

Retirement benefit counselling is not only impactful at exit from an employer, but it can also enable better retirement outcomes through engagement at the start of a new employment journey. Providing members with information about default investment portfolios and contribution rates to assist them in making informed choices will put them on the path to retiring with confidence. This new employee engagement also provides the opportunity to inform members about the ability to consolidate accumulated retirement capital in their new retirement fund and potentially save on costs.

The fact that 63% of members indicated that they were only provided with a withdrawal form at exit, highlights the need for retirement funds to include and involve employer Human Resources officers in the planning and implementing of member engagements. These important stakeholders know their group of employees best and play a key role in facilitating member education at critical touch points in a member's working life.

What was provided to you by your previous employer when you withdrew from the fund?	%
I was provided support from HR	13,86%
I was provided access to a financial adviser	12,38%
I was contacted by a retirement benefits counsellor	2,48%
I was provided with literature on the impact of my financial decision on withdrawal	8,42%
Nothing, I was just provided with the withdrawal form from HR	**62,87%**
Total	100%

This lack of intervention further impresses upon Human Resources officers the importance of having fund-specific member information. Furthermore, working in a partnership with Human Resources to achieve an increase in adoption of retirement benefit counselling is critical in complying with the spirit of the Default Regulations.

SUSTAINABLE INVESTING:
ENGAGEMENT VS. EXCLUSION – THE ASSET OWNER DILEMMA

Marian Gordon
Principal Investment Consultant
Simeka

Following the breakout of the global pandemic, many businesses, communities and families have been changed forever – not to mention the riots and floods in the Province of KwaZulu-Natal during this time having devastated many.

Businesses, jobs and family members were lost at an alarming rate, all within an economy that suffers from systemically low economic growth, high levels of inequality, load shedding and a vast level of unemployment currently above 34%.

As an economy in a connected world, it is important (arguably now more than ever) to stand together and march on – step by step – to a more sustainable, growing and inclusive society. It is time for us to envision the future.

Sustainable investing has become a megatrend in investments worldwide, premised on the fundamental belief that traditional investing balanced with environmental, social and governance (ESG) risk management integration provides enhanced long-term outcomes for investors and communities at large.

Sustainable investing (and ESG risk management) is certainly not a new topic of conversation in South Africa. It has been widely cited in Regulation 28 of the Pension Funds Act, Code for Responsible Investment in South Africa (CRISA), King IV and the Principles for Responsible Investing (PRI), to name but a few. This conversation has, however, ignited in recent years and has been further fuelled by the hardships of COVID-19 and its far-reaching impacts.

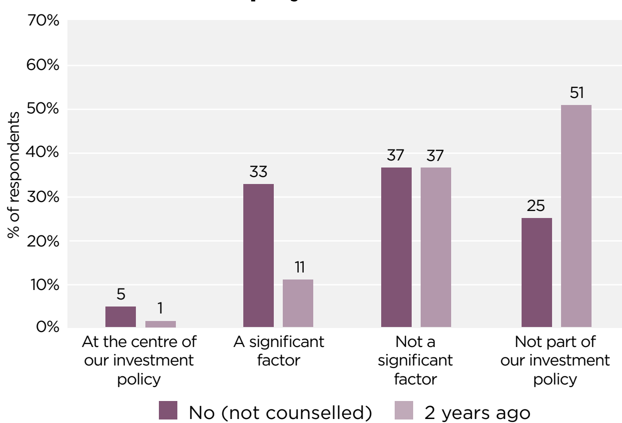
Empirical research shows that investing sustainably not only has a positive effect on outperformance/alpha generation, but also reduces the probability of permanent capital losses. Asset owners are encouraged to put the necessary pressure on asset managers, to bring pressure to bear on investee companies in turn, to rapidly progress on the sustainable development goals.

There are a total of 17 sustainable development goals (SDGs) adopted by the United Nations, which as a whole "provide

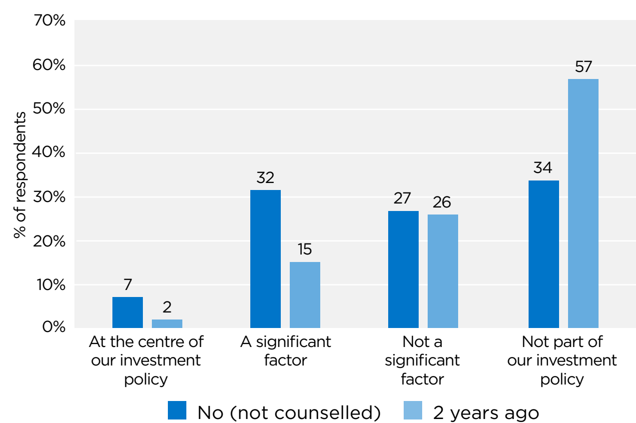
a shared blueprint for peace and prosperity for people and the planet, now and into the future". When we evaluate sustainable investing practices, we need to evaluate their alignment with, and impact on, the SDGs.

What is vital to remember is that the 17 SDGs are all connected and interrelated, and we should remain acutely aware of any unintended consequences. One argument to make is that all asset managers/owners should disinvest from companies that score poorly on 'taking action to combat climate change' (SDG #13). This certainly seems like an easy win, and may be the appropriate approach for a small proportion of asset owners. It is, however, only when we consider the knock-on effect of company closures that we understand and appreciate the devastating impact on employment and the knock-on effect on poverty (SDG #1). I would therefore argue that we need to engage with and encourage investee companies to ensure that they strategically improve these areas within their organisation, without blindly applying negative screening and creating further devastating impacts on society.

Simeka supports a Just Transition to a low-carbon and climate-resilient economy. On the topic of climate change, the conversation and awareness have gained significant momentum in the investment community in the past five years. Asset owners who participated in the 2022 Sanlam Benchmark Survey (stand-alone and umbrella retirement funds) have established that climate change has become a more important aspect in investment strategies (compared to responses received 2 years ago).



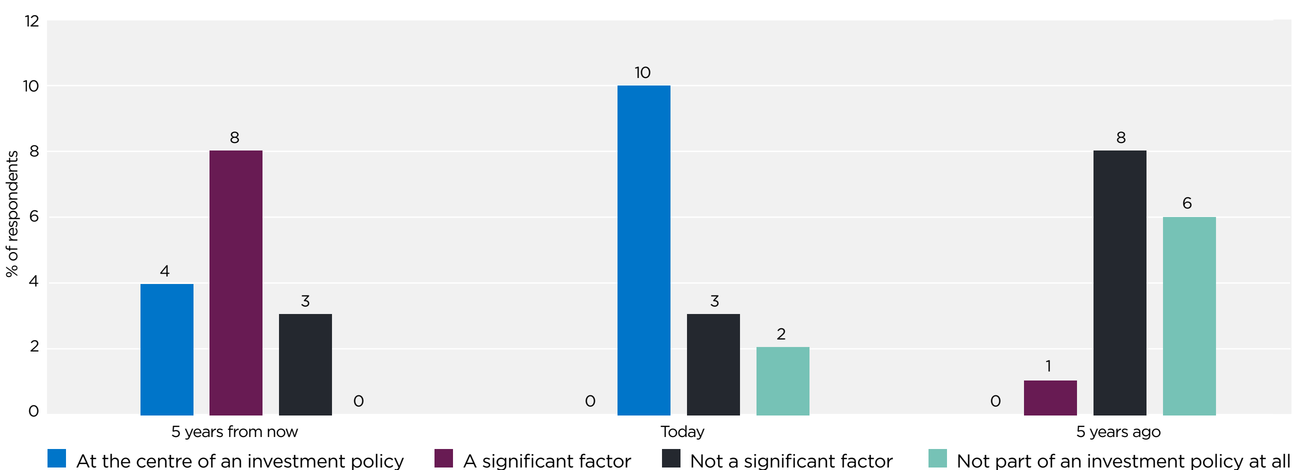
Base: Employer funds n=84



Base: Umbrella funds n=100

Climate change has become increasingly important in investment strategies over the past 2 years and is now reported to be at least " a significant factor" for 4 in 10 funds and sub-funds.

Furthermore, asset consultants surveyed believe that the importance of climate change has increased over time and is likely to gain further momentum over the next 5 years. In fact, 80% of asset consultants confirmed that they believe climate change will at least be a significant factor, if not at the centre of an investment policy, 5 years from now.



Base: Asset consultants n=15

The 2022 Sanlam Benchmark data on sustainability suggests that economic growth, job creation, education, access to clean energy, and climate action are the top 5 priorities in the mind of asset owners. It is up to asset owners/managers to ensure that investee companies – particularly in the South African ecosystem, in our case – deliver on these important issues without losing sight of the other SDGs.

Although daunting, sustainable investing is not a topic to be perceived as some unachievable conquest. Each step in the right direction is valuable and impactful.

Fundamentally, we believe there are some non-negotiables. All asset owners (boards of trustees, management committees, investment committees) need to (i) place the full force of their weight on asset managers/allocators to ensure that underlying investee companies are thoroughly engaged and interrogated. It is vital for asset managers/allocators to ensure that all investee companies are taking active steps to improve outcomes towards the SDGs. This effectively means that these considerations should be included in their strategies, Key Performance Indicators (KPIs) and remuneration structures. Asset managers are expected to provide this feedback to asset owners as evidence of their active stewardship.

Furthermore, (ii) it is vital for asset managers/allocators to vote at Annual General Meetings (AGMs). Proxy voting is necessary to drive actual change within investee companies and ensure that the appropriate individuals are at the helms of businesses and boards to drive strategy, to ensure that the correct KPIs and remuneration structures are in place, and to ensure that the improvement of outcomes in line with the SDGs is engrained into business practices. Abstentions should be the exception, not the rule.

These aspects are however qualitative and reactive in nature from an asset owner perspective.

It is interesting to note that the 2022 Benchmark research shows that ESG/impact capability considerations did not make the cut as one of the top 5 criteria used by asset consultants when selecting investment managers, although brand reputation did. It is imperative that we look beyond fancily designed brochures and grand marketing budgets and focus on the end goal – to provide high risk-adjusted sustainable returns to improve member outcomes with a positive impact on the rest of the economy. Unfortunately, quantitative methodologies have not been widely adopted by the industry to determine the effectiveness and suitability of asset managers' sustainable investing practices, which may be a big factor in the lower prioritisation in the recent survey results.

When narrowing in on the selection criteria for offshore managers, ESG/impact capability considerations ranked in the top 3. In fact, MSCI in its ESG analysis of companies provides critical insights on portfolios to provide asset owners with a way to measure and rank the ESG characteristics of a portfolio relative to competitor solutions – and helps asset owners identify risks and opportunities that may not necessarily be assessed in traditional investing. We do, however, believe that asset managers operating in South Africa should equally be held to account despite the recent paradigm shift where a greater offshore allowance (45%) of all insurance, retirement and savings funds has been communicated by the South African Reserve Bank.

We would therefore argue that **quantitative insights** on ESG integration are essential in manager/asset selection, both domestically and offshore. (iii) Within South Africa there are no clear direction and obligation on how the industry collectively and accurately assesses asset managers based on their sustainable investing practices from a quantitative perspective, and therefore collective insights are largely unavailable. Quantitative metrics may allow asset owners to fundamentally integrate ESG risk management into their investment strategy portfolio construction methodology. Although not the only reason for integrating ESG considerations into portfolio construction, it is highly probable that moral suasion may encourage faster adoption of sustainable investing practices among asset managers.

ESG ratings of companies are derived by third-party rating agencies according to their own proprietary methodology, criteria and process. As such, there is no standardisation for ESG risk management ratings in the industry. Even if we recognise and accept this subjectivity and variances in ESG rating agencies' scores, these quantitative scores are useful when proactively engaging with asset managers on the ESG risks. As such, asset owners will be able to interrogate asset managers through these quantitative ESG lenses based on underlying holdings. It is also useful when evaluating ESG risk management trends in portfolios over time, and we would expect a positive trend for asset managers who actively manage and engage on ESG risks in the portfolio.

Furthermore, thematic investing is also prevalent among asset owners. However, the steps taken by asset owners are somewhat practically limited depending on their governance budget and/or size. Asset owners with low governance budgets tend to invest in multi-asset class pooled mandates

where investment professionals within asset managers make all the investment decisions on asset and/or security allocation. Conversely, asset owners with high governance budgets tend to invest in best-of-breed managers with asset allocation generally being decided by the Board of Trustees. These higher-governance funds are typically able to allocate directly to thematic investments by investing in alternative asset classes, infrastructure investments and impact funds aligned with the SDGs.

In South Africa, we can certainly celebrate several future-fit wins:

- From a regulatory perspective: The Code for Responsible Investing in South Africa (CRISA) was introduced on 19 July 2011. South Africa was only the second country (the first being the United Kingdom) to formally encourage institutional investors to integrate environmental, social and governance (ESG) considerations into their investment decisions, according to a 2014 report by **Deloitte**.

  CRISA, along with Regulation 28, provides a framework for asset owners to engage and hold investee companies accountable for sustainable returns.

- South Africa establishing an international partnership to support a Just Transition is evidence that we are able to take ambitious climate action while creating jobs, providing new opportunities for investment, increasing our energy security and ensuring that no-one gets left behind.

- From an investee company perspective: The Task Force on Climate-related Financial Disclosures is an initiative to improve and increase reporting of climate-related financial information to assist in capital allocation, strategic planning and risk assessment. Many South African listed investee companies are already releasing their climate-related financial disclosures.

As we envision the future, it is time to stand together and march on – step by step – to a more sustainable, growing and inclusive society:

- From an asset management perspective: The Net Zero Asset Managers Initiative is a global group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. Globally, this initiative had 236 signatories as at the end of 2021, managing some $57.5 trillion. Very few South African-based asset managers (such as Old Mutual Investment Group and Ninety One) have taken up this initiative since its launch and we encourage asset allocators to further propel its adoption, and to ensure that measurable milestones are agreed and adhered to.

- From an asset owner perspective: Although qualitative metrics have largely been used to assess sustainable investing practices and stewardship, it is imperative that quantitative techniques be adopted (a) in order to evaluate accurately and engage with purpose, and (b) as a means of integrating ESG considerations into investment strategy construction.

Although noteworthy progress has been made, we still have a long way to go as we progress on the SDGs for a sustainable future. Gone are the days of investing to only make a monetary return. Our money can and should also realise an intrinsic and sustainable return to society at large for future generations to come.

MENTAL HEALTH AND SUICIDE DURING THE COVID-19 PANDEMIC

Neil Cilliers
Head of Group Risk Actuarial
Sanlam Corporate

In early 2020, the COVID-19 pandemic began taking hold and the whole world was faced with a novel, highly contagious virus that no one had any real idea how to control.

Due to the uncertainty about the infectiousness and dangerousness of the virus, many countries resorted to strict levels of lockdown – confining their citizens to their homes for various lengths of time, on and off, over the course of the next two years. Ultimately, whether these efforts were successful or not is debatable, but what is not up for debate is that these lockdowns had a profound effect on all facets of our lives, particularly the societal and economic parts.

Whole industries were decimated as people were unable to go out and spend money the way they always did, and social interaction was severely curtailed. Both of these effects provided the perfect storm for a new epidemic – a mental health one.

In March 2022, the WHO released a scientific brief on mental health during the pandemic. While it did not find any conclusive general evidence of increased suicide rates, there was a marked increase in reported anxiety and depression across the world. Our own data supports this view, as we currently have not found any significant increases in suicide claims in our data (although mortality cause-of-death data can be sparse); however, information from the Disabilities teams indicates that stress, anxiety and depression claims are on the rise.

Loneliness from being locked down, anxiety from fear of infection, and having to face death day in and day out – whether personally or in the news – all resulted in increased anxiety. Our economy was already struggling and vast sections of our society were facing daily financial stress. Add to this the economic fallout of lockdowns, with whole industries or employers disappearing, widespread lay-offs, or reduced salaries, and one can understand the massive levels of anxiety in our unequal society.

In fact, one research paper out of Brazil identified inequality and existent poverty as one of the main risk factors for increased suicide during the pandemic. In their Northern regions they observed increases in suicides of between 26% and 40% – their Northern regions being historically more impoverished – in contrast to the rest of the country, which saw a decrease in suicide rates. This really highlights that it is the vulnerable members of our society who are always the most affected by these systemic shocks.

Mental health and wellness have been a topical issue for a few years, but have really become one of the key points to emerge from the pandemic. Employers and insurers who offer Wellness Programmes are becoming more sought after as we seek to help our employees and our clients to navigate the stresses of the past year as well as the new stresses emerging. The WHO has identified mental health as one of the key health services during and after the pandemic, and member states and organisations have recognised the need to scale up mental health support infrastructures as part of an overall health response.

In South Africa, the public sector health system is not well geared up for this fight – and this is where private healthcare and corporate citizens need to step up and be counted. If not, we will face a new pandemic that will have a very human cost as we lose friends, family and colleagues to mental health issues, but also a financial one as disability insurance costs will have to increase to pay for these additional claims.

THE CONVERGENCE OF HEALTHCARE AND LIFE INSURANCE

Michele Jennings
Managing Executive: Group Risk
Sanlam Corporate
and
Gary Allen
Chief Executive:
Sanlam Health Solutions

> Mortality escalated drastically during the COVID peaks, and between waves we saw, and continue to see, mortality stabilising at about 15-20% higher than pre-COVID levels.

These deaths were not all reported as COVID deaths, and in some instances were a result of non-communicable lifestyle diseases, deferred or avoided treatments during the pandemic, and unavailability of specialists, among many other causes.

As a result of the increased mortality, the only response that health and life insurers had in the past was to protect their sustainability through premium increases or through benefit reductions. The approach would have included looking at historical experience and using this, together with environmental COVID projections, as a predictor of future experience to set the required, sustainable premium levels.

With 31% of stand-alone funds, and 21% of umbrella fund Benchmark respondents indicating that they had looked at ways to limit risk premium increases, we know we are reaching a point where insurance is becoming unaffordable for some employers and members, which is adding to the financial stresses and possibly contributing to even higher claims experience … so clearly not a long-term solution.

Affordability challenges, together with incredible advances in technology, have resulted in NOW being the right time to focus on preventing claims rather than pricing for higher claims.

Fifty-one per cent of the Benchmark respondents indicated that they believed a holistic health and financial wellness programme delivered higher productivity and staff happiness, yet only 12% used integrated programmes - reflecting a clear gap in the current services offered.

Fortunately, new smartphone technology and frictionless health data aggregators are now enabling a convergence between health providers and life insurance. The technology supports a meaningful relationship with members regarding their health, wellness lifestyle, mental well-being and even adherence to chronic disease management, which can result in improved health benefits for members, and in turn, prevent or reduce claims for the health insurer as well as the life insurer.

Condition	Growth 2020-2030	Growth 2020-2040
Comorbidities (more than one co-existing non-communicable disease (NCD) in an individual)	27%	56%
Depression	15%	30%
Diabetes	27%	55%
Heart Disease	32%	69%
Hypertension	24%	47%

The non-communicable disease (NCD) burden is a growing concern in the South African population, with the rate of growth almost doubling for most conditions between 2030 and 2040. NCDs are a good indicator of the needs for healthcare services given their chronic nature and reliance on regular medication.

The rise in NCDs reflects a lack of awareness of the impact of lifestyle on diseases. Often the impact of lifestyle-related diseases is detected too late to prevent the serious consequences that follow from advance hypertension and diabetes, for instance.

Many of the triggers contributing to mental illness are lifestyle related, with financial stress being one of the largest contributors. Financial stress leading to substance abuse as a coping mechanism, which in turn intensifies the mental illness, adds to financial stress and so the cycle continues.

COVID too has accelerated this trend. Afrocentric, Sanlam Health Associate within the Sanlam Group, delivers a large portion of antiretrovirals (ARVs) for the State. Of great concern is the significant reduction in repeat ARV prescription activations post pandemic. The break in cadence and support from repeat doctor and clinic visits has possibly reduced patients' focus on managing their health. It is likely there will be a spike in HIV+ related health issues as a result.

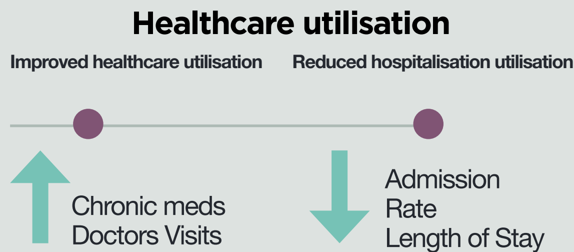
Changing lifestyle favourably impacts health outcomes and there is extensive interconnectivity between various diseases where one intervention can improve the outcome across multiple disease types.

Drawing on our data from Afrocentric, we see how lifestyle choices drive diseases. In the medical scheme environment, poor lifestyle choices have driven 65% of healthcare expenditure. This excludes the impact of alcohol and drug on trauma-driven hospitalisation. Ultimately, this is also reflected in group risk claims and increased group risk premiums.

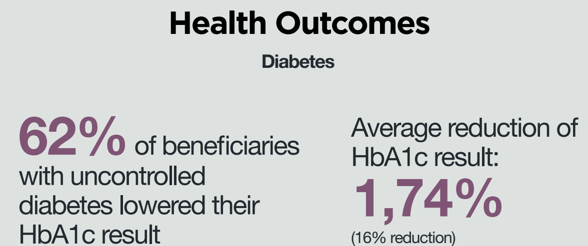
The good news is that lifestyle changes can reduce and avoid many of these medical claim and group risk claim events. The WHO estimates that as much as 90% of the incidence of Type 2 Diabetes, 80% of coronary artery diseases and 33% of cancers can be avoided through successful lifestyle interventions.

Effective Disease Manangement

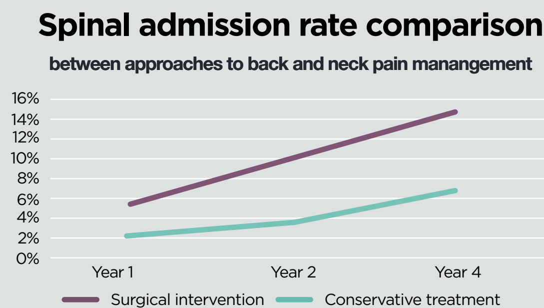
Healthcare utilisation



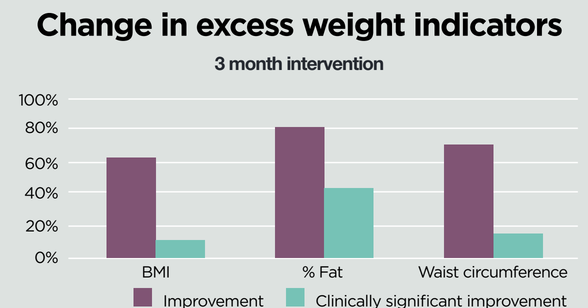
Health Outcomes



Spinal admission rate comparison



Change in excess weight indicators



Evidence from our partners in Afrocentriq and Medscheme shows that effective disease management, such as improving usage of chronic medication or doctor visits, ultimately leads to reduced hospital admissions and reduced length of stay in hospital. There is also clear evidence to show that managed diabetes programmes can improve the HbA1c score in about 62% of the beneficiaries.

Back and neck pain is a major cause of claims in insurance, and effective and early management can significantly improve a member's experience, to the extent that hospitalisation can be avoided.

Medical Schemes spend significant amounts of money on managed healthcare, the sole purpose of which is to reduce or avoid the huge expenses associated with many diseases. Since these same diseases drive claims in the risk environment, insurers could use lifestyle and managed healthcare disciplines to likewise reduce or avoid claims costs. We are not speaking of rewards-driven programmes where the positive health outcomes are only possible for those who can afford a monthly rewards premium, but rather employer and insurer co-funded interventions funded by increased productivity and reduced claims experience, so that all members can receive significant and impactful managed care with no or limited costs to members.

With the knowledge that managed healthcare can lead to healthier lives, the scalability of these principles across an insurer's entire client base will undoubtably lead to improved outcomes.

The concept is not new; however, previous attempts have not managed to get the right traction. Through various attempts of trial and error, a couple of key success factors to holistic integrated health and financial wellness have been identified:

- An **advanced, affordable, and proven technology platform** is required to enable frictionless and real-time collection of member health and other data (all within the protocols required by POPIA), together with analytical and engagement tools that will enable well-being insights and management.
- Data is critical, but requires effort, so **incentives help to motivate members and stakeholders to provide and respond to data** requests on an ongoing basis. Incentivisation has also been proven to keep members engaged and motivated to play an active role living healthier lives and to reward them for participating and engaging.
- **Scalable managed healthcare protocols**, delivered through engaging technology, are needed to drive improved health outcomes that are material enough to impact health and insurance experiences.

- The most challenging success factor to resolve has been the **funding** mechanism for this complex and relatively costly infrastructure. It is not financially feasible for only one stakeholder to bear the costs, and success is therefore dependent on contributions from the employer, the health and life insurers and in some instances even the members.

Healthcloud Is Solving Data Interoperability

Rich data sets to support decision-making and risk stratification

- Diagnostic (ICD-10)
- Procedure (CPT)
- NAPPI
- Claims
- Health screenings
- Clinical data
- Blood results
- Chronic medication
- Wellness days
- Wearable devices
- Diagnostic devices

ORGANISATIONS
CONNECTED DEVICES
PROVIDERS
PATIENT
PHARMACY
EHR's
LABORATORIES
CLINICS
HOSPITALS
API
www
sms

THE HEALTHCLOUD PLATFORM PROVIDES A SINGLE CONNECTION TO AN ENTIRE ECOSYSTEM OF DATA, MAKING IT POSSIBLE TO CONNECT AND EXCHANGE PATIENT DATA SIMPLY AND SECURELY.

healthcloud

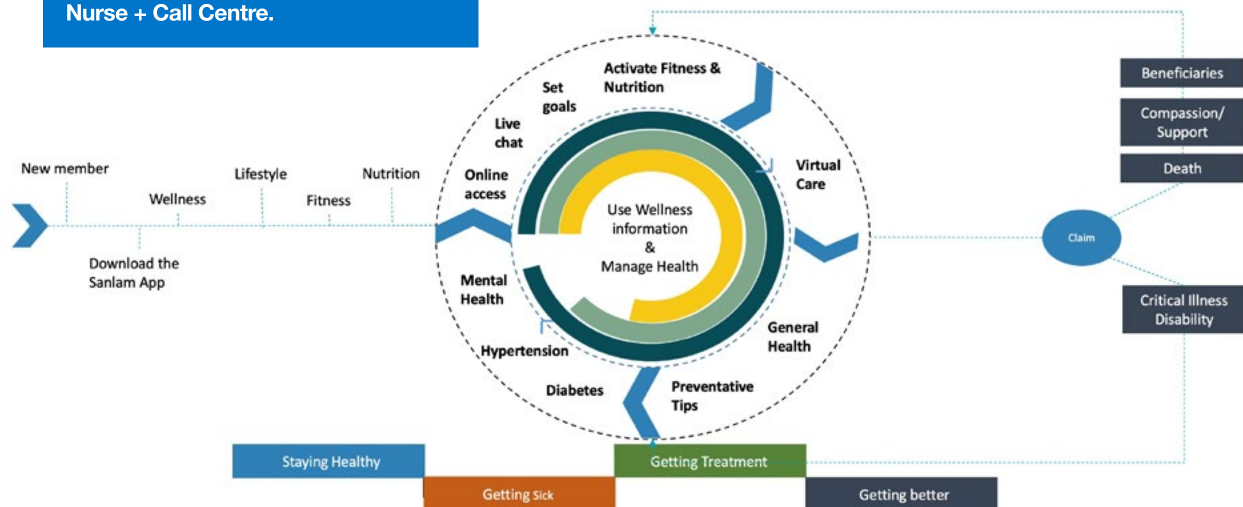
Through our partnership with Afrocentriq, we now have a solution that can deliver on all these success factors.

Frictionless health data aggregators such as HealthCloud (which has collaborated with Amazon web services), have developed an IT platform that integrates and pulls together what is referred to as "real-world data". This integration of data includes disparate healthcare records (even some from the SA Department of Health) and enhances it with additional data that can be sourced from almost any touchpoint such as smartphones, wearables, clinical data (from medical underwriting, dispensaries, doctors to pathologists) as well as other data sets such as financial transactions, the credit bureau, and even car trackers.

The data aggregator builds and maintains integrations to and from multiple devices and systems and stores it on their easy-to-use technology platform. Current explorations include exciting new technology such as that developed by Vertica Health, which enables members to use their smartphones, and photographs of themselves, to complete personal health statements in less than 12 minutes, providing information previously only available through physical exams and blood tests. Data scientists standardise and analyse the data and customise it for end-use consumption, making it accessible to users through an app, the web, or a user's own environments or systems.

The Benchmark research reflects that over 40% of employers take a holistic view of their employees and want to offer a wide range of financial and healthcare benefits, so health data aggregation can be used to proactively identify risk factors and trends, to enable appropriate workforce interventions such as fitness, nutrition, or mental wellness.

Improving Health Outcomes Converges with Life Insurance



We envision those group risk providers who adopt an integrated health and risk environment will be offering their members the following client experience:

- The member receives access to a health app / portal upon joining.
- The member gives permission for Insurer to access the various health data sources spoken of earlier.
- Members are awarded a health score based on the health data available and are presented with suggested lifestyle and health journeys to improve their health score through wellness, lifestyle, fitness and nutritional advice and support.
- The health journeys are multi-channel, ranging from digital nudges and information, virtual consultations with health case workers and, where required, face-to-face interaction providing access to experts such as dieticians and biokineticists, who provide virtual assistance to improve the member's general health.
- Health scores lend themselves to gamification, and through gamification members are rewarded for remaining engaged and achieving improved health scores.
- A digital health solution anchored in lifestyle and managed healthcare allows for the easy addition of supplementary health services (virtual primary health consultations; pharmacy courier services; mental health services, pre- and post-natal programmes, mental health consultations, smoking cessation and even specialist services such as physio and dermatology).
- Members with diagnosed medical conditions receive personalised disease management and support for conditions such as diabetes, hypertension and mental health, all of which feed back into the data aggregator's platform to ensure ongoing holistic health management for those members.

Although this type of holistic health management has been around for a while, the recent convergence with life insurance enables the life insurer to provide and use the data, benefit from the proactive health interventions, and make use of the integrated disease management protocols. Through technology they can monitor the adherence to treatment protocols and track health improvements towards the set goals, and at claims stage many of these services can be used to support beneficiaries and loved ones.

Insurers, employers and members are connected through a member's financial, mental and physical well-being. The convergence of scalable health and life insurance is not only possible and relevant but is certain also to lead to meaningful and engaging relationship with members, as well as gains for all stakeholders.

- Members and dependants are presented with better health outcomes and quality of life.
- Employers are able to reduce absenteeism and staff turnover and improve presenteeism, thereby saving costs and increasing productivity.
- Health and life insurers experience lower claim payouts, which ultimately results in lower insurance premiums for members and employers.

Given that all stakeholders benefit, a co-funded solution seems to be the best mechanism to ensure that the solution is socially inclusive, and not reserved only for the elite and wealthy.

Aligning incentives with the targeted outcomes, for example sharing in claims experience improvements, really makes this a rare win-win-win for everybody.

SHAPING THE FUTURE OF RETIREMENT FUNDS

Adél Gräbe
Consultant: Technical Services
Simeka

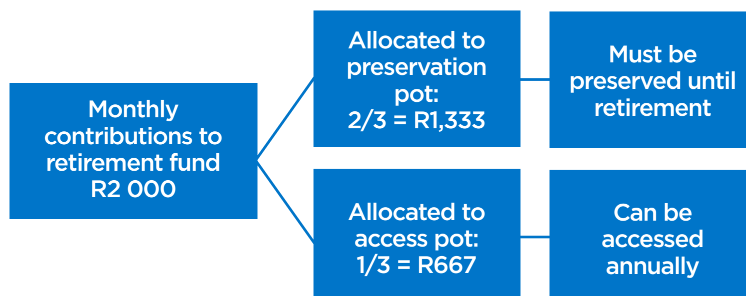
A number of significant regulatory proposals, such as early access to retirement funds, governance of umbrella funds, and the COFI Bill, are in the pipeline. These will change the retirement landscape, impact member behaviour, and shape and guide behaviour of boards of funds and employers in the future.

Early access and compulsory preservation (the "two-pot system")

The financial struggles many South Africans are facing due to the COVID-19 pandemic have resulted in Government engaging with the regulators and other key stakeholders to work out relief measures for consumers.

Even though it is generally agreed that retirement savings should preferably only be used for their intended purpose, namely retirement provision, it is recognised that there might be a need to allow some access to accumulated retirement savings before retirement, and limited pre-retirement withdrawals are therefore being considered by the National Treasury.

The intention is to introduce a two-pot system that will provide for pre-retirement withdrawals while still aiming to safeguard retirement savings. In essence, the two-pot system implies that future retirement contributions will be channelled as follows:



Access pot: The access pot will be available at any time, but can only be withdrawn once a year, depending on the fund's ability to effect withdrawals, and possibly subject to a minimum amount such as R2 000. It is also proposed that a second withdrawal be allowed within the year for any remaining amount if the member only made a partial withdrawal (i.e., did not withdraw the full access pot), to mitigate the risk of members withdrawing the full amount in fear of not having another opportunity to withdraw.

The cost of any withdrawal would be paid by the withdrawing member to avoid other members being impacted by higher administration costs. It is proposed that retirement benefit counselling be provided to members prior to withdrawal in an effort to encourage them to increase contributions to make up for the amount withdrawn, and to ensure that they understand the impact of the withdrawal on their future retirement savings.

The National Treasury also considers allowing an initial access amount (from retirement savings accumulated as at date of implementation of the two-pot system), which will be in the form of an "opening balance" of the access pot.

It is further proposed that all defined benefit funds be included in the two-pot system, although the complexity of this is acknowledged by the National Treasury.

At this stage it is not clear how withdrawals from the access pot will be taxed, and proposals vary substantially. The retirement industry would welcome an uncomplicated tax structure, applied across all types of funds.

Preservation pot: The National Treasury recognises that with the introduction of partial access, preservation of retirement savings is crucial to ensure sufficient retirement provision and to avoid old-age poverty and reliance on the state.

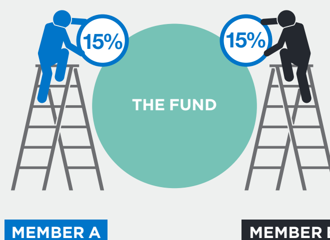
Early access to retirement funds should be balanced with compulsory preservation, meaning that the two-thirds allocated in the preservation pot will not be accessible to members prior to retirement, even in the event of resignation from employment.

A member's retirement savings up to the date of implementation of the two-pot system will be ring-fenced and members will still be able to withdraw this portion should they resign from employment. This amount will follow the member should the member transfer to any other fund.

It is widely recognised that one of the main reasons members cannot afford to retire, is lack of preservation, and it is debatable whether the planned extent of compulsory preservation will prove to be sufficient. It is, however, a move in the right direction. Although the intent to create compulsory preservation is welcomed, continued access to the ring-fenced benefits, coupled with reduced contributions (only 2/3rds) in the preservation pot, may prove to be detrimental to members in the absence of proper counselling.

As examples:

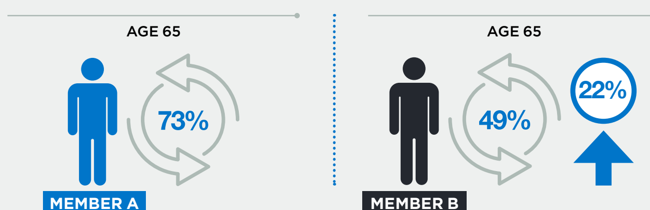
Members A and B both start their career at age 23, both start contributing 15% of pensionable salary to the fund, and invest in a portfolio providing a real return of 4% per annum.



Both retire at age 65.

During their membership, **Member A does not make any withdrawals** from the access pot and **Member B annually withdraws 100% of the access pot**.

At age 65, **Member A** would have a **replacement ratio of 73%**, whereas **Member B** would only have **49%**. Should Member B want to achieve a replacement ratio of 73%, **he will have to increase his contributions to at least 22%**.



Boards of funds should carefully consider the possible implications of the two-pot system on member outcomes, with specific reference to:

- Effective retirement guidance and counselling to ensure that members, at the point of making a decision to access funds, are made aware of the impact on their replacement ratios and to encourage them to make additional contributions to counter the impact of early withdrawal. Boards would be remiss if they overlook the positive impact proper counselling can have on member behaviour.
- Member communication and education cannot just be a perfunctory action.
- Although provision is made for the cost of withdrawal to be carried by the specific member, increases in administration fees in general may be unavoidable, given the increased complexity and risk to manage various "pots" and additional capacity requirements due to increased volumes in claim payments.

Auto enrolment

Consideration is also being given to introducing automatic enrolment of employees into the retirement system, backed by strong tax incentives. Not all employers provide a retirement benefit for their employees. Unless these employees self-enrol in a retirement annuity fund, they are left with no provision for retirement. Government proposes to introduce automatic enrolment to all employees in formal employment, thereby improving retirement coverage and providing risk cover for all employees. Employees in informal employment might be added at a later stage.

Umbrella funds

The Governance of Umbrella Funds paper, which was issued in December 2021, seeks to improve the governance in retirement funds in general, but particularly commercial umbrella funds. Consolidation of the retirement sector into a smaller number of bigger funds can bring cost savings to smaller employers due to economies of scale, as well as improved governance and disclosure. Government's main concern is the governance of umbrella funds and the impact that poor governance has on member outcomes. There is some evidence that larger funds might be more efficient than smaller ones, but members must benefit from the efficiency and economies of scale.

The following are inter alia suggested:

- The umbrella fund management board must conduct ongoing assessments of value for money for members, as will be prescribed.
- Inclusion of more independent board members.
- Board members must not serve on more than three boards in any year, so that they are not spread too thinly.
- Independent board members may not be contracted to any consultant or service provider involved in the fund.
- Formalisation of joint forums, to assist with the difficulty that is faced during employer and employee nomination and election of board members to the board of an umbrella fund.
- Introduction of an auction system, where umbrella funds are required to bid for the right to be a default consolidation or auto-enrolment fund.
- Standardised provision of information on charges to enable comparison between funds and to promote effective competition.

The implementation year is anticipated to be 2023. There are many practical challenges with respect to the proposed changes. Participating employers, with the assistance of their benefit consultants, will have to play a more active role, as it would be impossible for the board who is responsible for managing umbrella funds with a membership of 250 000 plus members, to effectively reach and educate each individual member on retirement matters.

Draft Conduct Standard on Section 13A of the Pension Funds Act - payment of pension fund contributions

The draft Conduct Standard on requirements related to the payment of pension fund contributions has been submitted to Parliament. In summary it provides the following:

At commencement of participation in a fund and annually thereafter, every employer must be notified by the fund of its duties, obligations and liability under Section 13A of the Pension Funds Act.

Employers will also be required to furnish the fund with the following minimum information as contained in the Conduct Standard:

- The contact person at the employer or pay point responsible for dealing with enquiries relating to contribution statements and the payment of contributions

- The identity of the person at the employer to be personally liable for compliance with paying over contributions to the fund
- Income tax number of each member
- Contact number of each member
- Email address of each member
- Postal address of each member
- Residential address of each member.

The employer will have to provide a declaration that all employees eligible to be members of the fund are accurately reflected in the minimum information.

The Conduct Standard further places a duty on the fund administrator to report to the principal officer should the minimum information not be provided within the required time frames. Once reported to the principal officer, it will follow an escalation process of first to the board of the fund, then to the FSCA, and lastly to the SAPS.

The Conduct of Financial Institutions Bill

Once it has been enacted, the Conduct of Financial Institutions Act (COFI Act) will apply to all financial product providers, financial services providers, holding companies of financial conglomerates and to persons licensed or required to be licensed in terms of a financial sector law, all known as financial institutions. A pension fund organisation is a financial product provider and thus a financial institution and therefore the COFI Act will apply to a pension fund organisation.

Treating Customers Fairly (TCF): The Bill outlines what customers and industry players can expect of financial institutions. It requires that financial institutions treat customers fairly by incorporating the TCF principles into the way financial institutions conduct business with their clients.

It is envisaged that participating employers will be considered supervised entities in respect of their obligations under the Pension Funds Act and that the regulator will therefore have more powers to enforce certain requirements against participating employers.

Transformation: The Bill is supportive of transformation, and it provides that a financial institution must ensure that it has a transformation policy and a plan in place of how it intends to meet its commitments as set out in the policy. Such transformation policy and plan should satisfy the requirements of the B BBEE Act and the Financial Sector Charter.

The COFI Act will give the regulator more legal powers to advance and implement transformation. Retirement funds will be required to report to the FSCA on how they are achieving their transformation policy goals.

Boards are encouraged not to wait until the regulator addresses transformation of their fund, but to rather commence with their transformation project.

Governance: Financial institutions will be expected to adopt, document, implement and monitor the effectiveness of a governance policy. This policy must be approved by and will be subject to the oversight of governing bodies, which in the case of retirement funds will be the board of management. The policy must also set out how the financial institution will comply with the governance policy and set out the roles and responsibilities of the board of management, remuneration, communication with the FSCA and the compliance procedure, among other things. The policy must be reviewed from time to time to ensure it is valid and kept up to date.

The overall intention of the COFI Act is to ensure a consolidated, consistent and comprehensive regulatory framework in the financial services industry and to ensure financial customers have the relevant protection.

Governance, transformation, TCF and protection of members are key themes that will continue to shape the future of retirement funds. Funds will continue to face many challenges from a governance and compliance perspective, and the introduction of early access to retirement funds only highlights the importance of member education to protect retirement outcomes of members.

SELFCARE IS MANAGING YOUR WEALTH THROUGH DIGITALLY ENABLED FINANCIAL SOLUTIONS

Tebogo Legodi
Digital Lead
Sanlam Corporate

The landscape of the retirement fund industry in South Africa has changed significantly, with **more focus on empowering members to make smarter financial decisions** that lead to better retirement outcomes.

On the other hand, the COVID-19 pandemic, which has led to the loss of 2 million jobs in South Africa, has had an impact on how members and employers relate to their employee benefits. At Sanlam Corporate, we have seen **an increase in digital adoption and usage** of digital solutions in the past two years and the response of members and employers in embracing digital solutions evolving.

According to the Sanlam Benchmark research, sectors such as online retailers and banking drew greater attention from consumers than the retirement fund sector. Seventy-six per cent of surveyed consumers have changed their digital behaviour mainly driven by increased online transactional activity, with online banking and Takealot.com being main drivers of that activity. Unfortunately, of those surveyed, 64% had not digitally engaged with their retirement fund. That said, the 30% who did engage present a significant increase compared to the less than 10% before the pandemic.

For consumers who engage with their employee benefits, this is a significant shift from engaging face to face with HRs or via employers' call centres to self-servicing via digital platforms. But the truth is that, as much as we focus on digital offerings, we must also accept that this only work if employees are aware of the solutions. **For those who engaged on digital platforms, 62% found the information they were searching for**, queries were resolved to their satisfaction and engagement was useful in meeting their financial needs. Most consumers would like to have greater control over their retirement benefits, similarly to what they have over their bank transactions.

Are individuals closer to retirement more digitally engaged?

We have observed an increase in digital engagement across all ages during COVID-19. The demographics of members, particularly factors such as age, income and education levels, are considered when driving digital engagements. We have seen that **55- to 64-year-olds are proportionally using the member portal more because they are nearing or at retirement**, thus having the greatest need for understanding their retirement benefits and outcomes. There has been a comparable increase for this age band over time. The highest number of digital platform users fall in the **35- to 44-year-old age group**. This trend is expected as this age group **can be described as financially literate and technically savvy**. What about the younger generation? We have also observed a high adoption rate within the younger age groups, i.e. 25- to 44-year olds, as this age band is also tech savvy. Overall, there has been an increase in adoption and usage across all age bands. This clearly indicates greater interest from members in understanding their employee benefits and a **push from employers in encouraging members to adopt digital solutions provided by funds**.

A key strategy to improving outcomes is through education and empowering members to use the digital tools available to them. In the current context, where the country is subjected to a high unemployment rate and millions are losing their jobs, robust financial education and access to information are imperative. Providing members with **access to their personal financial information in real time and capabilities to transact online has yielded positive results**. The Survey showed a shift in consumer behaviour in that 58% of consumers polled were mostly living more frugally and cutting out luxuries, while 31% were saving money that would have been spent on commuting, lunch at the office and take-outs, and 27% were reviewing policies (i.e. life, funeral and retirement). This is true as **there has been a significant increase in members switching portfolios and updating their beneficiaries online** since the start of the pandemic, illustrating that members are actively tracking their finances.

We have also seen an increase in member engagements throughout member life stages, as early as when a member joins a fund, which indicates an improvement in members' understanding of their products and benefits through to withdrawals or at retirement as they utilise tools when changing jobs or at retirement. Equally, a new trend is a high uptake in value-added solutions such as wills, rewards, and doctors' virtual appointment bookings, which aren't traditionally a primary employee benefits offering.

Real-time access, online tracking and transaction capability are the game changer

Member education is critical to improve financial well-being and to influence change in attitudes towards retirement savings. To assist members in managing their wealth, Sanlam is well positioned to create and enable a digital environment for members and employers. In the end, wealthcare is members taking responsibility for their retirement assets and making sure the financial future of their loved ones is secure.

GROUP INCOME DISABILITY:

A PRICING HOT-AIR BALLOON

Reinier van Gijsen
Group Risk
Sanlam Corporate

It is 1 June 2022. In our living room I know my kids are watching the movie "Up" for the umpteenth time. It is a tale about a young boy (Russell) wishing to earn his scout's merit badge by helping an elderly, and from his child perspective, weak neighbour (Carl).

The elderly neighbour, on the other hand, is aiming to fly his house like a hot-air balloon to South America by tying helium balloons to it. It is easy to draw the analogy to group insurance – the young helping the old. In group insurance, this is done through a health cross-subsidy; young people tend to be healthier than older people[1]. However, my analogy lies along a somewhat different path ...

Meanwhile, in my study, I am in a Microsoft Teams meeting discussing yet another scheme where the income disability (PHI) benefit experience has exploded in the past few months. This is the third meeting that the pricing team has had on this client alone. Efficient? No, but nobody can believe what we are seeing. Each new person looking at the scheme has the same reaction: "It must be fraud! Surely this cannot be right." To be sure, our forensics team is investigating the scheme and the cases but has not yet identified anything untoward.

To sketch the picture: The group has seen its disability claim rate rise by 105% between mid-2020 and mid-2021, with the bulk of this spike happening late during that period. It has seen a further increase of 168% since then. You might be tempted to think it is statistical trickery to make a good story, but this is not a small scheme, or one with low claim numbers, where one claim distorts the analysis. It is also not an isolated case ...

In numerous conversations with advisers, reinsurers and prospective clients, there is someone recounting a recent

1. For now, let us ignore the fact that income tends to increase with age, so there is an income subsidy going the other direction. I do not want to ruin an otherwise nice metaphor.

horror story on PHI. Yes, the specific case mentioned above is the most extreme I have ever encountered, but alarm bells are ringing. A trend is developing and, as far as I can tell, PHI premium rates are rising again. This is not surprising given the economic carnage of the COVID-19 pandemic and dreadful unemployment figures, which are well-documented to adversely impact claim incidence on disability income products, but there is more to it ...

Back to "Up". At one stage the helium balloons floating the house begin to deflate and the house starts dragging on the ground until it finally settles completely and Carl has achieved his dream. Much follows and Russell finds himself in trouble, with Carl having to save him. Carl realises he must refloat the house and begins tossing out furniture, the fridge, etc. – everything that has been weighing the house down.

The financial services industry has been doing the same thing with PHI for years. We have been tossing out all the things weighing the experience down. It began with annual increases in cover maximums, which often exceeded inflation. At about the same time, intermediaries and clients began pushing for higher free cover limits and less underwriting. Again, insurers obliged and we entered a cycle of competing on free cover limit as if this is a benefit instead of recognising that it is a vital risk management tool. To make matters worse, the tax treatment of PHI benefits changed. International and local experts warned against maintaining old, flat benefit structures because they had seen the horrors wrought by PHI in Australia. Yet again, under pressure from intermediaries and competitors, the market collectively failed to adhere to sound risk principles. That is, all the protection and cost containment mechanisms have systematically been thrown out of our "house". As a result, PHI premium rates slowly started lifting and, as more controls were tossed out, this lift continued and even accelerated. So, by the end of 2019, most insurers had gone through a period of upward pressures on their PHI portfolios and, consequently, on clients' premium rates. For a fortunate few, the increases were perhaps spread over a few years, with rates increasing gradually. Others may have seen big impacts over a much shorter period.

In early 2020, the COVID-19 pandemic began and immediately insurers and reinsurers sounded the PHI warning bells. We were all worried that the hot-air balloon of PHI rates was heading for an updraft. Within days the world was turned upside down and South Africa (like many other countries) was placed under hard lockdown. Whether these efforts were successful or not will likely form the basis of future PhD theses, but it cannot be disputed that the lockdown severely impacted the economy and by extension the financial well-being of people. These financial and occupational pressures are over and above the obvious health and mortality effects.

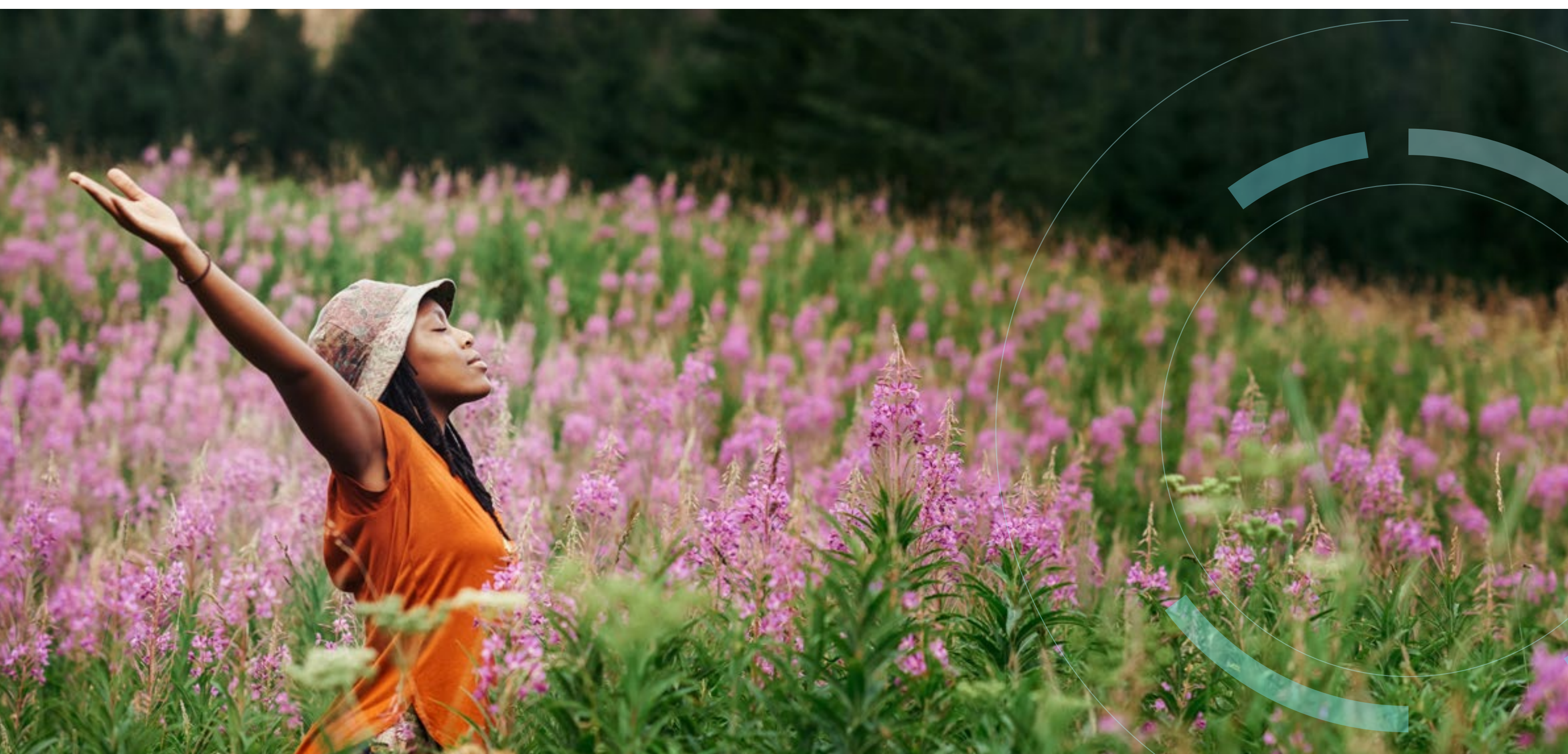
The direct impacts of COVID-19, such as potential lung damage, cardiac impairment and neurological deficits, are well-documented. They are often grouped together under the banner of long COVID. Through the reinsurers the market in general is also reporting an increase in stage 2 and stage

3 cancers, which is consistent with people being unable (or unwilling through fear of COVID) to obtain medical treatment and diagnosis during the lockdown period. There has also been some suggestion that suicide cases are increasing, but our data does not clearly show this. However, there is evidence from our disability teams that stress-related illnesses, depression and anxiety are on the rise. This is consistent with the March 2022 report by the WHO indicating a sharp rise globally in mental health diseases. These factors are definitely placing upward pressure on claim numbers, with Sanlam Group Risk already seeing an increase in claims incidence.

In this environment, where all the pressures are pushing up, it would be easy to default to premium rate increases. However, we are reaching a stage where this may no longer be a viable or fair solution. Until 2019, I cannot recall ever seeing a PHI premium rate in excess of 4% and certainly not breaching 5%. By stark contrast, since the start of 2022, I have seen between 5 and 10 schemes where their PHI premium rates have breached this level. That is, schemes where their PHI rates are getting to the same level as members' employee fund contributions. This is clearly not an outcome that is sustainable and, remembering that most people will reach retirement whereas only a relatively small number will become disabled, I question whether this is reasonable to the majority of the members. Without intervention, group income disability benefits are headed for extinction and PHI will become the sole purview of the rich within the retail market.

It is time that all the stakeholders – insurers, advisers, clients and members – rethink PHI and, in particular, how we manage the ever-increasing risk. I think the time has come that we reconsider attitudes towards the traditional risk mitigation measures. That is, we have to load some furniture back into the house so we can weigh it down again. Some ways of achieving this are to use free cover limits appropriately and at reasonable levels as a risk management tool, maintaining current benefit maximums or even consider lowering these, reducing replacement ratios and shortening initial periods. Individually, these measures are unlikely to have material impacts, but collectively they can manage the risk down.

However, it is our opinion that more needs to be done. Sanlam and our partners are embarking on industry-leading solutions as we look to proactively managing risk. To this end, we are partnering with interested employer groups to invest in scalable managed healthcare options with the aim of preventing claims rather than having to price for claims. Ultimately, Sanlam believes it is in everybody's interest to achieve the right balance between benefits, affordability and coverage. We look forward to partnering with you for a sustainable future.



UMBRELLA FUNDS – RESEARCH OVERVIEW

Nzwa Shoniwa
Managing Executive
and
Anna Siwiak
Head:Product Development
Sanlam Umbrella Solutions

This is the twelfth year a separate study has been conducted on umbrella funds, and the history provides a meaningful analysis of the emerging trends. Once again, we surveyed 100 employers who participated in umbrella funds. It is important to realise that there is an inherent survivorship bias when employers are identified to participate from one year to the next.

Executive Summary

- **Contributions**
  Provisioning for retirement funding has decreased since 2021. The decrease is largely attributable to a decrease in contributions and not an increase in costs.
- **Investments**
  Most employers still offer an investment choice, but there is a growing number of employers who offer a choice depending on category of membership.
  Lifestage models remain the most popular Trustee choice/Default portfolios. The multi-managed structure was the most used structure of these defaults, but there seems to have been a slight shift away from guaranteed structures towards single-manager balanced active structures.
- **Insured benefits**
  Most participating employers provided risk benefits as part of the umbrella fund package and the benefit multiple remained relatively constant for these employers.
- **Healthcare integration**
  Most respondents believed a holistic integrated health and financial wellness programme delivered higher productivity and staff happiness.
- **Holistic integrated value propositions delivered through strategic product and engagement partnerships**
  The top benefits and services identified were Retirement, Group Risk, Medical Aid and Financial Wellness programmes.
- **Special topics**
  The special topics covered this year were the Conversion to Umbrella Funds, Governance of Umbrella Funds and Cybersecurity and Cyber Resilience Requirements.

Understanding the Participating Employers Surveyed

They operated mainly in one of the following business sectors: Manufacturing 22% (2021: 20%), Wholesale and retail 21% (2021: 15%), Professional or business services 9% (2021: 7%), Agriculture, forestry or fishing 8% (2021:11%).

The average membership was 554 (2021: 594), with 55 (2021: 52) of the participating employers having a membership of between 20 and 300. The remaining 45 employers had more than 300 members.

The average value invested in an umbrella fund by a participating employer was R331 million (2021: R299 million), with 28 (2021: 29) employers having less that R50 million invested.

Contributions

	2022	2021	2019	2018	2017	2016	2015	2014	2013
Employee contributions	6,3%	6,3%	7%	5,5%	7,3%	7,1%	6,4%	5,6%	5,6%
Employer contributions	8,3%	9,4%	9%	8,4%	10%	9,5%	8,8%	8,5%	8,1%
Total contributions	**14,6%**	**15,7%**	**16%**	**13,9%**	**17,30%**	**16,60%**	**15,20%**	**14,10%**	**13,70%**
Death benefit premiums	(1,4%)	(1,2%)	(1,3%)	(1,5%)	(1,3%)	(1,3%)	(1,3%)	(1,6%)	(1,6%)
Disability benefit premiums	(1,1%)	(1,1%)	(1%)	(1,1%)	(1,1%)	(1,1%)	(1,2%)	(1,2%)	(0,9%)
Operating costs	(0,6%)	(0,6%)	(0,7%)	(0,6%)	(0,7%)	(0,7%)	(0,8%)	(0,8%)	(0,8%)
Total provision for retirement	**11,5%**	**12,8%**	**13%**	**10,7%**	**14,2%**	**13,5%**	**11,9%**	**10,5%**	**10,4%**

The cost of the pure administration fee of the sub-fund is expressed as a % of salary for 73% of employers (2021: 74%) and as a cost per member per month for 16% (2021: 16%).

Overall, as the umbrella fund industry achieves economies of scale, the model seems to be working well for consumers.

Investments

The majority of employers surveyed, 46, offered a member investment choice. This figure decreased over the past two years from 65 in 2019. However, another strategy came through quite strongly this year, where an employer's investment strategy is dependent on the category of membership. This means that a member who is classified under one category would not have an investment choice, but another member, from the same employer but from a different category, would have a member investment choice. This type of strategy has grown from 3 employers in 2019 to 19 in 2022.

Of those who offer a member investment choice, 84% of the membership is invested in the Trustee choice or Default investment option.

When asked to describe the investment portfolio of the Trustee choice/Default portfolios, 77% (2021: 67%) described it as a Lifestage strategy as opposed to a single managed portfolio 23% (2021: 33%). The most popular structures of these defaults were Multi-managed 61% (2021: 60%), single-manager balanced active 17% (2021: 12%) and Guaranteed/smoothed bonus 11% (2021: 20%) (11%).

With the new Regulation 28 limit for offshore investment set at 45%, it is interesting to note that only a small portion (21,2%) of sub-funds' investment was offshore – well below the previous limit of 30%.

Typically, the key influencers in the decision-making process on where assets are placed, were indicated as the Board of Trustees of the fund by 64%.

The most popular asset manager performance benchmarks were CPI related 47% (2021: 38%), industry survey/peer group 24% (2021: 33%) and indices / composite portfolio benchmark 17% (2021: 16%).

Lifestage Investment Strategies

There was still some uncertainty for 32% (18% in 2020 and 25% in 2019) of respondents about whether their lifestage model was explicitly aligned with their post-retirement annuity strategy. This uncertainty may indicate that education is still needed regarding the role of a lifestage model and how it fits in with a post-retirement annuity strategy. It is significantly more than ever recorded before, which indicates that the industry still has a lot of work to do regarding the education of employers in this regard.

Allocations that best describe the portfolio in the final year before retirement	2022	2021	2019	2018
Conservative risk (<40% equity)	51%	42%	53%	51%
Cash (100%)	29%	31%	38%	28%
Moderate risk (40%-65% equity)	9%	15%	6%	9%
Bonds (100%) (there is a capital guarantee)	7%	12%	17%	4,3%
Smoothed bonus	18%	11%	11%	13%

Investment in Alternative Asset Classes

When asked about exposure to impact investment-type portfolios 59% (2021: 63%) were not sure but 24% (2021: 0%) indicated that there was 1% - 5% exposure. Themes taking the highest priority in investment decisions based on the sub-fund's sustainability and impact objectives were identified as Job creation 49%, Economic growth 44%, and Education 43%.

Climate change in the context of an investment strategy was considered a significant factor in the investment policy by 15% two years ago compared to 32% today. Two years ago it was not part of an investment policy at all for 57% compared to 34% today. This indicates that climate change is increasingly becoming a significant factor.

ESG-type portfolios also carried a lot of uncertainty, with 54% (2021: 66%) not sure if they had exposure, but 39% (2021: 25%) indicated that they did have some exposure to these types of portfolios. Forty three per cent indicated that they were satisfied with the current ESG reporting they typically received from the asset managers. Old Mutual and Alexander Forbes were identified as the managers that provided the best ESG reporting in South Africa for their members.

Risk Benefits

Most participating employers (68%) provided risk benefits as part of the umbrella fund package (2021: 69%), and 20% (2021: 18%) provided risk benefits by way of a separate scheme. Some (12%) (2021: 13%) provided risk benefits as a combination of the umbrella fund package and a separate scheme.

The table below shows the average annual salary multiples payable for risk benefits:

Benefit	2022	2021	2019	2018
Approved Death Benefit	3,1	3	3,1	3
Unapproved Death Benefit	3,5	3,5	3,1	3,5
Lump-sum Disability Benefit	2,3	2,3	2,8	
Income Disability Benefit (replacement ratio)	76,3%	76,3%	77,5%	

Nomination forms were put in place for 88% of employees in respect of these unapproved benefits.

Flexible risk benefits were offered by 29% in 2022 as opposed to 16% in 2017 when risk benefits were last surveyed. During the COVID-19 pandemic the flexible benefit was typically flexed up by 10%, flexed down by 14% and 62% did not use the facility.

Vaccination

Mandatory vaccination policies were in place for 27% of the respondents, with 70% not having a mandatory vaccination policy. Approximately 68% of staff had been fully vaccinated.

In order to limit the increase in risk premiums, respondents reduced benefits (10%) and introduced flexible risk options (11%). Most of the respondents (72%) had not considered ways to limit risk premium increases. Employers were not considering charging different risk rates for vaccinated versus unvaccinated members.

Healthcare Integration

Employee productivity can be addressed holistically through various health and financial wellness initiatives. Fifty three per cent (2021: 36%) believed a holistic integrated health and financial wellness programme delivered higher productivity and staff happiness. Sixteen per cent (2021: 30%) selected wellness / health programmes independent of each other, and 17% (2021: 19%) did not take responsibility for an employee's health but adhered to legal requirements in this regard.

This indicates a shift away from wellness / health programmes independent of each other towards more integrated programmes.

Holistic Integrated Value Propositions Delivered Through Strategic Product and Engagement Partnerships

Current employee value propositions in relation to the full suite of benefits provided centre on what is needed by employees to enable them to succeed in their job, i.e. empowerment, leadership and mentorship for 37% of the respondents. Thirty five per cent took a holistic view of the employee as both a professional and a family person, therefore offered a wide range of financial and healthcare benefits, including wellness, healthcare clinics, childcare, financial assistance for children's education and financial planning.

The ideal suite of benefits and services that should be included for all employees was indicated as follows by the respondents:

Benefits and Services	2022	2017
Retirement fund	100%	100%
Group risk	94%	76%
Medical aid	93%	82%
Financial wellness programmes	72%	41%
Financial advice	56%	
Debt counselling	44%	
Estate planning and wills	40%	
Rewards programmes	29%	18%

Special topics

Conversion to Umbrella Funds

Twenty eight per cent of the respondents indicated that it took more than 6 months from the decision to move into an umbrella fund to the actual implementation. The period from implementation till the whole project was concluded (installation/activation) was indicated by 32% to be longer than 6 months.

Members very rarely objected to such a transfer and the statements that resonate most with the conversion experience were "The administration platform is superior by industry standards" (27%) and "The consulting capability on the umbrella fund is superior by comparison to what we had as a stand-alone fund" (21%).

Governance of Umbrella Funds

Eighty six per cent of the respondents were either satisfied or very satisfied with the trustees of their umbrella fund. The majority of respondents (84%) indicated that the sponsor should be able to appoint 50% or less of the trustees. Two thirds of the respondents indicated that trustees should have the right to fire / replace the sponsor as service provider. Sixty five per cent thought member representation on the Board of Trustees would improve member outcomes.

From the above it is easy to deduce that there is a need for independence at a trustee level from participating employers.

When asked if the ethics of the sponsor can be trusted, 90% indicated "Yes" and only 2% "No".

Cybersecurity and Cyber Resilience Requirements

When evaluating a service provider's ability to mitigate cybercrime when appointing an administrator, 26% of the respondents indicated that the administrators provided a copy of their cybersecurity policy and 25% conducted due diligence at the administrator's office. It is concerning though that this does not form part of the assessment process for 33%.

The extent of concern about the threat of cyber risk was indicated by 78% to be either moderately or very concerned.

THROUGH THE LOOKING GLASS

Nzwa Shoniwa
Managing Executive
Sanlam Umbrella Solutions

This is the twelfth year that a separate study has been conducted on umbrella funds, and the history provides for a meaningful analysis of the emerging trends. Once again, we surveyed 100 employers who participated in umbrella funds.

For my review I revisited research results from 2012 where the key research objectives were to identify sponsors' major challenges as well as get sponsors' views on the reform process at the time.

Firstly, umbrella fund members have more than doubled in the last decade and assets have more than quadrupled to just under half a trillion in assets.

Over the past few years, we have seen layer upon layer of legislation being added to our industry and the one theme that has remained constant from National Treasury is the need for consolidation as well as its intent to improve governance within the industry, thus ultimately protecting the interests of members.

This ultimately led to National Treasury releasing a paper on governance of umbrella funds in December 2021 in which it highlighted their main concerns, namely:

1. Weak governance
   - Use of service providers affiliated with the fund
   - Overdependence on product/service providers for advice
   - Lack of member representation on the board of trustees of umbrella funds.
2. Complex charges
3. Barriers to entry / switching within the industry
   - **Inability of employers to switch between umbrella funds**
   - **Locking in of service providers or other parties by fund rules.**

In its most recent paper on governance of umbrella funds National Treasury is proposing the following:

- All board members (including independent board members) must not belong to more than three boards in any year
- Independent board members should not be contracted as consultants/service providers to the same fund of which they are trustees
- Management committees must be formalised and standardised
- Conducting ongoing value for money of the umbrella fund will be prescribed
- A disclosure-based initiative that would require funds to provide information on their cost structures
- Standardised provision of information to enable comparison between funds and to promote effective competition.

We thought we would test where the industry currently is about the concerns raised by National Treasury. Ninety per cent of the participating employers surveyed advised that they trusted their umbrella fund sponsor and were satisfied with their Trustees.

What the industry is telling us

High level of trust and satisfaction with umbrella funds used.

90% trust the ethics of the sponsor.

86% are satisfied/ very satisfied with the fund trustees.

58% are happy for the **sponsor to appoint 50% or more** of the trustees.

Although, **59%** believe trustees should be **independent**.

And, **65%** think **member representation** on the board would improve member outcomes

2 in 3 employers participating in umbrella funds believe trustees should **have the right to fire/ replace the sponsor** as service provider.

Just over half **(54%)** would prefer that **the joint forum/MANCO** be **formalised in legislation** thereby creating responsibility and possible liability for the members of the joint forum/MANCO.

Fifty-eight per cent said they were happy with the sponsor appointing 50% or more of the Trustees even though 65% believed member representation would lead to improved member outcomes. **The onus is on us to find the right balance.**

The most contentious response was that two in three participating employers believed Trustees should have the right to fire their sponsor. This is quite a conundrum since umbrella funds have been set up by sponsors for commercial reasons. However, there is no doubt that both sponsor-appointed and member-elected Trustees must continuously hold the sponsor accountable on behalf of their members.

Over half the respondents also felt that management committees should be formalised. We must always test the practicality of some of these proposals. The Sanlam Umbrella Fund currently has over 4 000 participating employers, some of whom have as few as seven members in total. In this instance, as much as member representation and compulsory joint forums are strongly encouraged, it is practically impossible to implement these across the board.

Management Committee / Joint Forum Meetings

Only 1 respondent reports that management committee / joint forum meetings are **a requirement** at participating employer level

And for this sponsor, **member representatives are included** in management committee / joint forum meetings

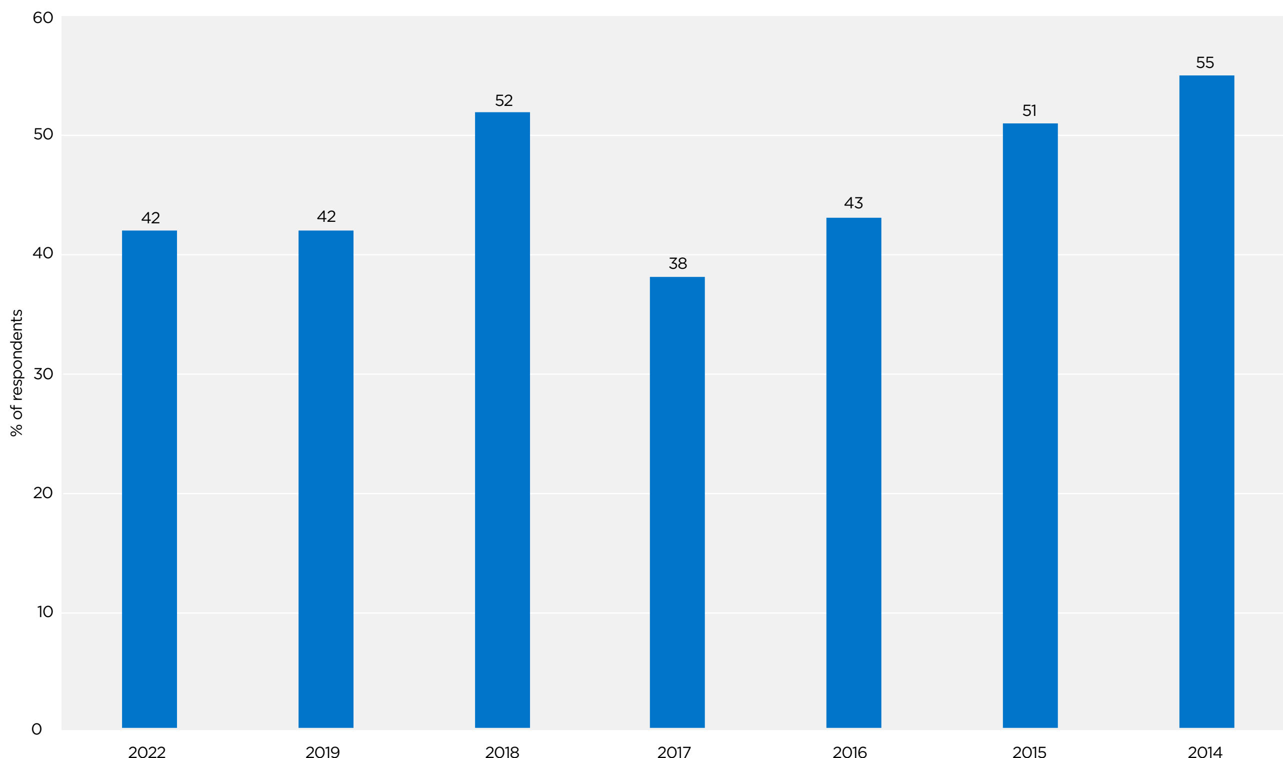
The other 5 sponsors report that management committee / joint forum meetings are **encouraged**, but are not compulsory

One comments that such meetings are more typical amongst the **larger employers** and that member representatives are often included

Conversions

The umbrella fund industry has more than quadrupled in size in the past decade. This has not been because of new retirement funds or companies being set up in South Africa but more because of larger stand-alone funds converting to umbrella funds – a trend that has continued to gain momentum since about 2014.

Ever Considered Converting to an Umbrella Fund?



Reasons for converting to an umbrella fund in 2012

2012	Mentions
More cost effective	3
Choice of investments	3
Transfer fiduciary responsibilities to professional trustees	2
Brand	2
Model of independence	1
Clear reporting	1
Access to advice and support	1

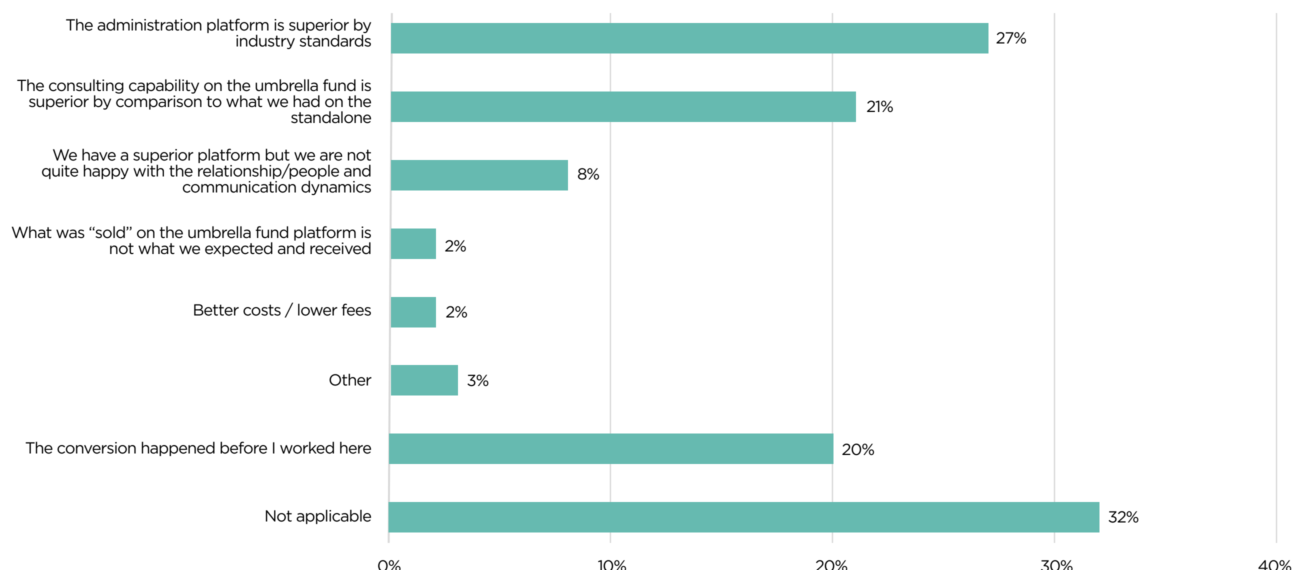
We asked whether employers were considering converting to an umbrella fund and 42% of the stand-alone funds indicated that they had considered conversion in the previous 12 months.

I reviewed the 2012 research for the reasons sponsors believed employers were considering converting to umbrella funds at that time. It was no surprise that cost savings, flexibility in investment choices and a transfer of fiduciary responsibilities to a professional board of Trustees were top of the list. These reasons have remained constant over the years.

The conversion experiences

This year we asked employers how their conversion experience had been and most confirmed that the experience had been positive. Servicing and communication remained a worry.

This is an aspect that umbrella funds need to address urgently as more and more employers and members convert. The service offering must respond accordingly to accommodate the influx.



The more things change, the more they stay the same

As part of my 10-year review of umbrella funds I considered the challenges sponsors faced in 2012 vs today.

Over the decade, there has been a consistent theme of:

- Regulation and its impact on costs;
- Communication challenges with members; and
- Uncertainty about reform.

Challenges

Biggest Challenges for Umbrella Funds 2012	Mentions
Consolidation of Umbrella Funds to achieve economies of scale	3
Margin attrition and maintaining commercial viability	3
Client education and ensuring implementation of good governance	2
Reform and the uncertainty around the NSSF	2
Legislative change and its impact on costs	2
Encouraging member preservation / becoming more member centric	2
Migrating funds from standalone to umbrella funds	1
Cost of communication	1
Dealing with intermediaries who have diverse skills & abilities	1

Biggest Challenges for Umbrella Funds 2012	Mentions
Regulation and its impact on costs, time and complexity of administration	3
Reliance on a strong economy – currently experiencing high levels of unemployment and liquidations	2
Being invited to pitch for new business / broker inertia	2
Communicating "value" to clients, partly due to a lack of direct access to clients	2
Communication and engagement with members	2
Keeping costs down to remain competitive	2
Slow speed of Section 14 transfers	2
Ensuring members understand the importance of retirement savings / preservation	2
Low level access to financial advice for members	1
Clients allocating more to risk and less to retirement savings as a result of COVID	1

The Section 14 process

The one common theme that has remained throughout the decade has been queries about the section 14 process that allows for the transfer of funds to umbrellas. This was the biggest concern raised by sponsors back in 2012.

6 out of 6

Umbrella fund sponsors highlight section 14 process as a major practical challenge for industry

"Some employers who know that they ought to change their administrators, do not because they have a fear of the Section 14 process"

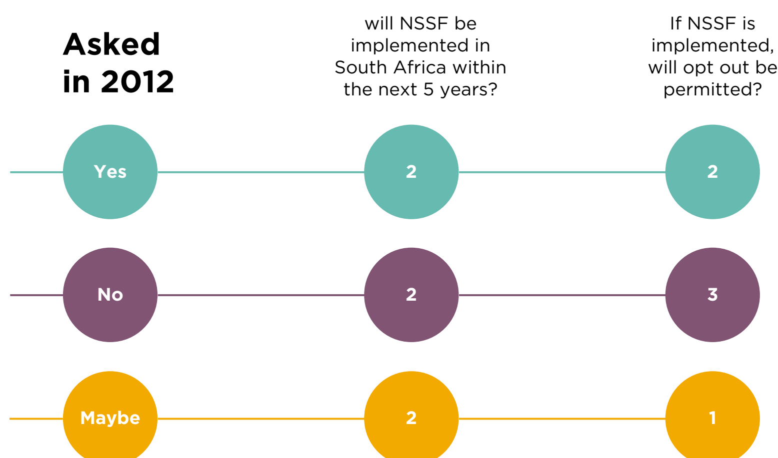
"There needs to be faster turnaround time, because the process is too slow. The timing is an issue for legal processes because it is too cumbersome, and the client loses out. A reasonable expectation to client is that it should not take more than a month.... and we are not close to that."

Unfortunately, when we fast-forward to 2022, the situation does not seem to be improving. The latest stats from the FSCA show that the number of outstanding valuation reports has increased by just over **800%** in the past decade, which means the section 14 backlog has worsened over this period.

Perhaps this is the barrier to entry / switching to which National Treasury alludes.

National Social Security Fund (NSSF) uncertainty

In my review I also considered other major concerns that had been raised by sponsors in 2012. I was not surprised to learn that the NSSF was very topical at that time.



"Reform - NSSF. The uncertainty around design and timing, i.e. when it will come into play, and the uncertainty around the structure. That is a big issue"

Of the sponsors interviewed, two felt that it would be implemented within the following five years (2017), and the biggest concern at the time was the uncertainty about timing as well as participation rules.

Fast-forward to 2022 and as much as National Treasury says Retirement reform is alive and well, the uncertainty remains.

Currently the industry is dealing with the proposed two-pot system. In our Benchmark research we provided retirement fund members with an opportunity to share their views on current proposals regarding the two-pot system.

- As many as 40% were not familiar with the current proposals.
- Just over 30% said they would cash in some of their retirement savings.
- Over 40% felt that it was a good thing **because members were struggling and needed to have access to that money**

2032

Up till this point my review has included a comparison of 2012 to 2022. Speculating on what is to come in the next decade, we believe:

- Larger funds will also convert to umbrella funds for reasons mentioned earlier. In fact, our own Sanlam Staff Fund will be converting to the Sanlam Umbrella Fund, which will constitute an additional R13 billion assets transferring later in 2022.
- Umbrella Funds will continue to position an integrated value proposition that combines **healthcare, wealthcare and selfcare.**
- The fight for the most digitally advanced offering will be accelerated as millennials now constitute the largest proportion of umbrella fund membership.
- Along with the National Treasury, the industry will continue to pursue better retirement outcomes for all members to create a truly inclusive retirement fund industry.
- It is even possible that some employers may offer members a choice of umbrella funds (like they do for medical aid), where at joining a member will have a choice between two or more.
- Lastly, and probably the most important, are financial inclusion and transformation.

Financial inclusion and innovative solutions

In the FSCA 'Financial Inclusion Strategy' paper, specific sections were dedicated to the following three topics:

- Supporting technological innovation that enables financial inclusion
- Supporting small financial service providers who typically serve lower-income customers with simple and affordable products, and
- Promoting the supply of appropriate financial products and services to SMMEs.

Research indicates that out of 16 million employed people under the age of 65, only seven million contribute to pension or provident funds. We believe this is because many of these people form part of the SMME sector where contributing to a retirement fund is not a priority. It is with this in mind that Sanlam Corporate has decided to make it easier for these members to contribute to retirement savings by creating a fully digital facility to which employers can sign up. A retirement funding facility that is quick, simple and effective in achieving the goal of improving access to a good retirement outcome.

At Sanlam we constantly reflect on how far we have come as an industry and whether we have transformed accordingly and improved retirement outcomes for the ultimate beneficiaries – our members. When we look back to 2012, the big question is whether we have walked far enough, like Alice in Wonderland, to reach a desirable destination.

Or have we simply crawled towards the door without even opening it for our members to enter and secure better retirement outcomes?

> “One day Alice came to a fork in the road and saw a Cheshire cat in a tree. “Which road do I take?” she asked. “Where do you want to go?” was his response. “I don’t know,” Alice answered. “Then,” said the cat, “it doesn’t matter.””

Wagieda Pather
Head: Market Insights
Sanlam Corporate
E Wagieda.pather@sanlam.co.za

Danie van Zyl
Head: Smoothed Bonus Centre of Excellence
Sanlam Corporate
E danie.vanzyl@sanlam.co.za

Rigitté van Zyl
Chief Client Officer
Sanlam Corporate
E rigitte.vanzyl@.sanlam.co.za

Live with confidence

2 Strand Road, Bellville 7530 | PO Box 1, Sanlamhof 7532, South Africa

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