

equities.

Equities have always offered the best prospect of future returns. The risk is that many investors will fail to benefit from this growth because volatility has led them to disinvest.

This is an important message, but fewer advisors may be around to impart it. The forecast is that at least half the current practitioners will soon leave the industry as a result of increased regulation.

***It was that type of year. Markets felt pressure; so did investors, so did advisors. Future growth will come ... for advisors with the right qualifications and clients with the right long-term strategies.***

## Multicultural issues a challenge in the retirement fund industry

Giselle Gould, Business Development Director of Fairheads Benefit Services



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Retirement fund trustees need to be more mindful of cultural norms when allocating death benefits to dependents of deceased fund members. One of the most common complaints made to the Pension Funds Adjudicator relates to the exclusion of common-law wives and their children in the distribution of death benefits.

A migrant worker, for example, has dependents in the city close to his employment, yet whose wife and children from his marriage are based in the Eastern Cape. The 'city wife' complains to the PFA that she and her children have been excluded from any benefits. This is a reality of life in South Africa. Trustees have a fiduciary duty to investigate who the actual dependents of retirement fund members are, regardless of whom they stipulate in their nomination form. Every dependent has a right to be treated fairly.

Such investigations are not simple. They often involve travel, multiple interviews and attendance of funerals to ascertain dependency relationships.



In terms of section 37C of the Pension Funds Act, retirement fund trustees have three options for the payment of lump-sum death benefits due to minor children: either to administer the funds in the retirement fund, or to pay the lump sum to the guardian or to pay it into an umbrella beneficiary fund.

Beneficiary funds are a cost-effective and safe vehicle for such monies, paying out a monthly income to beneficiaries and/or their guardians and with the trustees of the beneficiary fund deciding on special capital payments on request, such as for school fees and school uniform. Beneficiary funds are aligned with the Pension Funds Act and are designed to receive lump-sum death benefit payments in terms of section 37c of that act. Upon the death of a retirement fund member, the trustees identify the dependents and use their discretion whether to pay the money into a beneficiary fund, administer it within the retirement fund or pay it directly to the guardian. They are guided in this complex decision by service providers which have developed tools such as a guardian assessment process to assess whether a guardian is financially literate and capable of investing and administering minors' assets for their benefit.

Once in a beneficiary fund, the trusteeship of the assets passes to the board of the beneficiary fund. Beneficiary funds are structured similarly to retirement funds. They offer greater protection for minors as they are regulated by the Pension Funds Act; all stakeholders have recourse to the Pension Funds Adjudicator; there are strict corporate governance requirements; and investments are prudentially managed in line with regulation 28. Each minor dependent who has funds in a beneficiary fund becomes a member. The average account is R60 000 which if administered carefully can pay for an entire education.

The industry is growing rapidly. Since the inception of beneficiary funds in 2009, total inflows to date are estimated to be in the region of R5 billion.

***In line with best practice, Fairheads outsources the investment of beneficiary funds to a number of leading investment houses. The investment strategy for a beneficiary fund is distinctly different from that of a retirement fund. Individual members of a beneficiary fund have very different needs and this requires an asset allocation matrix for each category of members. Essentially this is a type of life-stage investment model, but determined by the trustees. For example, a one-year old member will have very different needs from a 16-***