

GUARDIANSHIP

Happy stories

Here's an educational approach that works. It requires serious effort, not merely offering courses and hoping for the best, if the goals are to be met. There's a lesson in it for training of pension-fund trustees too.

There's no substitute for face-to-face interaction in helping guardians better to prepare for helping those – minor children, widows and orphans – who rely on their guardianship. Over the past year a total of 31 workshops, held by Fairheads Benefit Services in rural and urban centres of eight SA provinces as well as three neighbouring states, attracted some 3 000 guardians.

That many travelled for up to six hours to attend speaks as much for the value of the workshops as it does for the guardians' appreciation of the opportunity. The purpose of the workshops was to educate guardians and beneficiaries about beneficiary funds and still-existing umbrella trusts. The programme followed focus-group sessions, held last year, to determine the appropriateness of material and to obtain feedback on service levels.

According to FBS director Giselle Gould, the main findings were:

- ▶ The workshops were helpful and easy to understand;
- ▶ They should be held regularly and in more venues;
- ▶ SMS communication works well;
- ▶ Communication should be available in different languages;

- ▶ Clearer communication is needed in benefit statements;
- ▶ Advice is needed on how to use the capital fund and why requests for payment cannot always be met.

Looking at the practicalities, take for example these two case studies. They're based on the umbrella-trust product as investment history for beneficiary funds dates back only to 2008. The investment strategy for umbrella trusts is the same as for beneficiary funds.

Case study 1

In December 2001 the XYZ Group Pension Fund asked Fairheads to set up trusts for two minor children whose father, a member of the fund, had died. The total death benefit amounted to R364 432. The trustees of the pension fund had decided to allocate 58,8% to the widow to sustain herself and her two minor daughters, and to allocate 20,6% to the children respectively aged nine and 11 (R75 109 per child).

The children's shares would be placed in an umbrella trust to be used for their educational expenses. The trusts were to be capitalised, meaning that no monthly income would be paid and all interest would be reinvested.



Gould . . . reaching the grassroots

Ten years later, the oldest child had finished studying. Accumulated interest over this period was slightly more than R72 000. The umbrella trust has assisted with her secondary and tertiary fees as well as covering her matric dance expenses, driving lessons and licence, a computer and related equipment (adding up to R70 428).

After matric the beneficiary studied photography. The umbrella trust assisted her in purchasing of camera equipment and providing the means to set up her own photography company.

The Fairfund trustees have enjoyed a good relationship with the beneficiary and her mother over the years, receiving photographs and regular updates on her educational progress. The beneficiary has now reached majority age and has elected to take the remaining funds out of trust. The remaining balance paid to her was R78 719.

Case study 2

In January 2002 ABC Pension Fund asked that a trust be set up for a minor beneficiary whose father, a member of the fund, had died. The trustees decided that, as the deceased was divorced and the ex-wife was receiving a pension, the full death benefit of R407 752

would be allocated to the child. It was also decided that the trust would be capitalised, meaning that no monthly income would be paid and all interest was to be reinvested.

In the duration of the trust, over R200 000 in interest had accumulated. Some R530 000 has been paid out to assist the beneficiary with educational and other expenses. The trust also assisted the beneficiary in completing her secondary studies and paid in full for her tertiary expenses. These included her publishing degree, accommodation and study materials, for four years.

The beneficiary has now completed her studies and is working fulltime. The trust has further assisted her in the purchase of a R172 000 car.

The beneficiary still has R255 000 left in the trust. It will terminate in October 2012 as per the retirement fund trustees' original instruction.

INVESTMENT STRATEGY

In both case studies the investment returns were achieved through a combination of three vehicles: call, income and balanced funds. Due to the income being capitalised, the age of the beneficiary and the amount of money placed in trust, a high percentage of the funds were allocated to a balanced-fund portfolio which provided significant capital growth.

Recently, with the assistance of an independent asset consultant, Fairheads reviewed the asset allocation model for both the Fairfund Trust and the Fairfund Umbrella Beneficiary Fund as documented in the investment policy statement approved by the trustees. Included in the investment policy statement are an initial asset-allocation model and an annual asset-reblend model which set out the investment parameters for each member.

These two models are based on lifestage principles with 36 and 48 different investment combinations respectively. Even where funds are conservatively invested, the appropriate asset allocation should deliver satisfactory medium to long-term returns.