

FAIRHEADS TIMES



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“PROFESSIONAL” NEGLIGENCE IMPACTING ON THE MOST VULNERABLE – WHAT IS THE SOLUTION?

By David Hurford, Chief Executive Officer

How many more times must we read in the news about the theft or misappropriation of Road Accident Fund or medical negligence claims - money meant for the victim, stolen by those who were charged with protecting it.

The victims are often financially illiterate and comprise the most vulnerable sector of society, especially when it comes to RAF claims affecting the injured or disabled, all the more so when these are children.

The case of Zuko Nonxuba, an Eastern Cape attorney who is alleged to have lodged fraudulent claims in the millions of rands, is just one example. Simply Google the Road Accident Fund and there are countless cases, perhaps not as extreme, where the money meant for the victim has instead been stolen by unscrupulous attorneys, financial advisors and even trust practitioners.

One of the more laughable defences put up by one of the perpetrators is that because the child had died, they had no further rights to claim the benefit!

The RAF itself is an organisation in disarray with corruption rife. Recently, despite a Constitutional Court ruling in October compelling the RAF to resume and honour payment of claims lodged on behalf of medical scheme members injured in road accidents, it is refusing to do so.

While all this is a symptom of the deeply rooted corruption that exists in our country, it is frustrating that



the courts responsible for RAF/medical negligence claims do not step in to make the changes which can prevent this kind of abuse.

HOW DOES IT WORK?

Typically, where a court orders the RAF or State entity to pay a benefit to a minor who has been the victim of a road accident or other medical negligence claim, the order stipulates that the benefit should be held in trust and used for the medical and other expenses that they will incur. In most cases, this creates an opportunity for the attorneys to earn further “commissions” from trust company providers to establish a new trust – which of course would be in the interests of the attorney. For the service provider however a stand-alone trust is often an expensive and time-consuming task, with fees being deducted from the beneficiary’s claim. ▶

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SOME SOLUTIONS

There are alternative, cost-effective vehicles which could be used to safely house RAF and medical negligence claims and we believe the authorities need to be educated about to raise awareness around them: beneficiary funds; and umbrella trusts.

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For us, given their very high standard of governance and protection, the first prize would be for RAF and medical negligence claims to be paid into a beneficiary fund. Here, the Pension Funds Act would need to be amended to accommodate this.

See the advantages of beneficiary funds below.

But even if this is a bridge too far for regulators to amend legislation, these benefits should at the very least be paid into established umbrella trusts which have a long track record of serving the needs of minors and those with disabilities.

At Fairheads we manage both beneficiary funds and umbrella trusts on the same basis, although there are some differences regarding their regulation and the sources from which funds may flow into these vehicles. A brief summary of each vehicle follows below.

BENEFICIARY FUNDS

A beneficiary fund is classified as a pension fund organisation and protected under the Pension Funds Act with oversight by the Financial Sector Conduct Authority. Members have recourse to the Pension Funds Adjudicator. There is a high level of professional trusteeship and investments which, in Fairheads' case, are managed by best-of-breed investment managers.

A beneficiary fund can receive employment-related benefits, but there is no reason in my view, why the courts cannot pay RAF or medical negligence claims into the vehicle.

The guardian or caregiver of a minor receives a monthly income towards the upkeep and education of the child and capital payments for school fees, medical bills, and the like are controlled by the fund's board of trustees. In Fairheads' case the trustees comprise 50% independent trustees.

No tax is paid in the beneficiary fund and as the children are minors and not taxpayers, any payment out of a beneficiary fund, whether capital or income, is tax free.

UMBRELLA TRUSTS

This vehicle is regulated by the Trust Property Control Act.

As the term suggests, an umbrella structure houses various sub-trusts, leading to economies of scale and other advantages which include:

- There is no need to register a new trust deed, enabling instant liquidity so that settlement can occur quickly and money can flow to the beneficiary;

- An umbrella trust, founded by a reputable provider, has a professional and experienced board of trustees in place to oversee the best use of the benefits;
- The costs are low compared to a stand-alone trust, because these costs are shared by all the beneficiaries of the trust;
- Again at Fairheads, in line with best practice, investments are handled at arms-length by best-of-breed asset managers, with the board of trustees working together with an investment consultant.

Contrast these advantages with establishing a stand-alone trust, which involves the drafting of the deed, appointment of trustees, registration with the Master of the High Court and administering the trust, including all accounting and governance functions – let alone being responsible for the skilful investing of trust funds.

CONCLUSION

We will be bringing these advantages to the attention of the authorities and encourage the industry to join us. Let us start the process and help to protect those who need it. ■

MESSAGE FROM THE CEO

This year-end issue of Fairheads Times leads with the impact of negligence on a vulnerable sector of society and calls all stakeholders to apply their collective minds and seek solutions to the maladministration and corruption surrounding claims arising from the Road Accident Fund and medical negligence.

We summarise the successful submission we made to the IRFA Making it Happen inaugural awards and also write up a human-interest case study where our tracing team had a pleasing outcome.

We are very excited about the progress made in enabling investment into the real economy through our open investment architecture, leading on from our enhanced asset allocation Glide Model as written about previously. Our first impact investment will likely be in the second quarter of 2024.

The two-pot retirement system is highly topical. While it doesn't apply to us directly, we are nevertheless concerned about the very short time frames for



David Hurford

implementation, particularly as some of the enabling regulations have not yet been finalised.

Finally, we thank Old Mutual Corporate Consultants for an interesting market update – an essential read about the impact of inflation on investments.

All of us at Fairheads would like to take this opportunity to wish you well over the holiday season, and to thank you for your ongoing loyalty.

Kind regards
David Hurford

NAVIGATING THE IMPACT OF INFLATION ON INVESTMENTS: INSIGHTS AND STRATEGIES FOR 2023

By Dennis Murray, Divisional Head and Principal Investment Consultant, Old Mutual Corporate Consultants

Understanding Inflation

Inflation, measured by the Consumer Price Index (CPI), reflects the change in prices over time. It directly influences personal finances, impacting both spending habits and monthly savings. When prices rise due to inflation, it affects what we can do with our money, like sharing or helping out. So, understanding inflation is not just about personal stuff, it is also about making sure what we share or manage for the future doesn't lose its value.

The role of inflation in the economy

In the economy, inflation is like a temperature gauge, showing how hot or cool things are. A bit of inflation, like a dash of spice, can be good. It means more people are wanting and buying stuff. It's like a sign saying, "Hey, the economy is growing!" But too much inflation, like too much spice, can cause a stir. It might mean prices are rising too fast, and that can be a bit tricky for everyone.

Central banks, like the South African Reserve Bank (SARB), can control inflation through what is called the "repo" rate – altering it to influence the direction.

So, inflation plays this fascinating role in our economic story, signalling whether things are cooking just right or need a little adjustment.

Impacts on investments

When inflation rises, it can affect different investments in unique ways. Bonds, the heroes of fixed-income, often suffer during high inflation because their prices dance to the tune of interest rates. As rates rise, bond prices can dip. On the flip side, real assets like commodities and property often gain positive returns as their values rise.



Dennis Murray

When it comes to share prices, it's not always a smooth ride. If people have less money after dealing with loans and credit card debt, businesses might feel the squeeze, impacting company profits and, in turn, share prices.

Different asset classes have their unique journeys, and it all depends on the circumstances.

Inflation's influence on market stability

While expected inflation fosters stability, unexpected changes can trigger market volatility. Investors use inflation as a yardstick to evaluate investment value over time.

Global concerns

Globally, inflation soared in 2022, reaching over 9% in the USA and 7.4% in South Africa with some signs of stabilising and even decline in some areas of the world recently. Factors included the continued Russia-Ukraine conflict, supply chain disruptions, and excess money supply due to low unemployment and increased wages.

Despite some ups and downs, with weaker readings being seen in trade, how people feel about spending, and how businesses are doing, global outlook remains the same. Elevated inflation and interest rates are still acting as headwinds to the global economic growth outlook.

On the flip side, real assets like commodities and property often gain positive returns as their values rise.

Long-term investment perspective

Despite occasional concerns, the historical performance of the SA JSE All Share Index reveals its resilience. For those in it for the long haul, keeping steady during ups and downs is a wise move, as it often leads to promising returns.

Impact investing for positive change

Investments can contribute to society and the environment through something called “impact investing”. These special investments not only aim to make your money grow but also contribute to good things like quality education, building roads, supporting agriculture, and creating clean energy sources.


The Fairheads Independent Beneficiary Fund achieves this through investment in the Old Mutual Growth Series Portfolios, where these investments are managed by Old Mutual Alternative Investment (OMAI) and African Infrastructure Investment Managers (AIIM). These teams, with over 21 years of experience, are like the guardians of your investments. These investments, called “alternative investments,” aren’t traded as often as regular ones. They need a more hands-on approach and are held for a long time.

President Ramaphosa talked about the importance of these kinds of investments in 2021, and even the National Treasury called for retirement funds to consider bridging the gap in infrastructure development in South Africa.

Some might think doing good comes at the expense of making money, but that’s not true. These investments aim for a return of “inflation+7%” every year, making sure your money grows while making a positive impact on society. So, by being part of the Fairheads Independent Beneficiary Fund, your retirement savings are doing good for South Africa and making sure you get strong returns.

Balancing impact and returns

In conclusion, understanding and navigating the impact of inflation on investments is crucial for financial success. Whether considering market stability, long-term investment strategies, or contributing to positive societal change through impact investing, a balanced approach is key. The Fairheads Independent Beneficiary Fund exemplifies how investments can align with both financial goals and societal impact. ■



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ANOTHER INDUSTRY ACCOLADE FOR FAIRHEADS' FLAGSHIP BENEFICIARY FUND

Fairheads was delighted to receive a certificate of acknowledgement at the inaugural IRFA *Making It Happen Awards*. This award was for the work we are doing on member communication.

Our submission is summarised below. It outlines our "New Money Consultation" process whereby we engage proactively in a two-way conversation with the guardian/caregiver of a beneficiary fund member in order to reassure them by introducing Fairheads, and explaining our role and the payment process. The initiative has been most gratifying, reflecting our communication approach of 'talking and not just writing'.

This award follows the acknowledgement we received last year by being placed second across the entire retirement fund industry for our leadership in improving member outcomes.

CONTEXT

The Fairheads Umbrella Beneficiary Fund ("the Fund") is Fairheads' flagship fund and was the first beneficiary fund in the country to be registered in December 2008. The Fund currently holds assets of around R4.4 billion on behalf of around 27,000 members who are predominantly minors, or those who suffer from a disability.

THE "IT"

The 'It' of the IRFA Awards submission – the key to "Making It Happen" - revolves around finding a solution to communicate optimally with guardians/caregivers when they are first introduced to Fairheads and need to understand why the benefit of the minor member is held with us.

We discuss first the challenges below, following which we describe the solution to the "It" and how it has worked for us.

THE CHALLENGES - PROBLEM DEFINITION

As with all retirement funds, member communication continues to represent the single biggest impediment to improved member outcomes for the Fund. This is particularly the case because beneficiary funds do not communicate with their members through an intermediary, such as the employer's HR office. Rather, beneficiary funds communicate directly with



the caregivers and guardians of Fund members. This is evidenced by the close to 1 million phone calls made and received to and from Fairheads members during 2022.

The communication challenge is best described in the following true story. In 2015, the Guardian Roadshow team was asked by our internal tracing team to visit a caregiver who lived in Lesotho, and who had been out of contact for some time. The team had been writing to him to ask him to send in some information to allow them to re-instate the child's income. The roadshow team obliged and after a short detour, drove up to the location listed on the caregiver's record. The caregiver, an older gentleman, saw the Fairheads branded vehicle drive up and promptly went inside, coming back out with a fistful of the letters he had received from Fairheads. When asked why he had not responded to the letters, he simply stated that he did not understand what they meant!

For us, this highlighted how poor a form of communication a formal letter is, and how much more efficient a conversation can be.

When first considered, the idea of individual guardian consultations for every newly onboarded member sounded daunting. After all, we onboard close to 1,000 new members each month. We conducted some initial research which revealed that:

- In some cases, there was very limited communication between the retirement fund and the guardian or caregiver that the child had been awarded a share of the benefit, and that it had been transferred to a beneficiary fund. For these clients, the first communication about the benefit was from Fairheads, an organisation which they had never heard of.
- Where there was communication from the retirement fund, it did not provide a thorough explanation of what a beneficiary fund is, how it works and how it can benefit the child.
- Letters sent to the guardian or caregiver were unlikely to be received because of the poor state of the SA Post Office.
- Where written communication was received, despite some, like the member guide, being in three different languages, the clients did not fully read nor understand the requirements.

As a result of not understanding the requirements of the beneficiary fund, members were being deprived of their monthly income because the guardian or caregiver was not submitting the required documents.

THE “IT” – A PERSONAL CONSULTATION

The solution – the “It” which has “Made it Happen” was to draw up a detailed, standard script for a dedicated “New Money” team to adhere to, in order to inform, reassure and empower the guardian or caregiver through an introductory phone call.

Most important to note is that we adopted a “talk” communication combined with a written communication (the Welcome Pack), to achieve our aim of ensuring that all parties sing off the same hymn sheet to the benefit of the beneficiary fund member.

The call is designed to inform the guardian or caregiver about:

- Who Fairheads is
- Why the money is with Fairheads

- What they can use the money for
- How much money is available each year for capital adhoc requests
- How they can access our services
- How to make a change to the regular income payments
- The importance of keeping their records updated with us
- How they can resolve disputes

The call is also used to collect information about the household circumstances of the child.

As a sign of professionalism and to keep the communication consistent, we developed a “New Money” script for our administrators to use.

The script has been transformative for both the Fund as well as the guardian and caregivers and – by default – the member. It is important to note that we allow the guardian or caregiver as much time as they need in order to get the information and reassurance they require. These New Money introductory calls in many instances last for over 40 minutes.

HAS THE “IT” WORKED FOR US?

There is no doubt that there has been an improvement in the level of understanding of our clients who have received a welcome phone call.

This is evidenced by the number of income suspensions for members who have received the welcome call versus those who did not.

On average, those who received the welcome call have an income suspension rate¹ of almost 10% less at 95%, compared to those who did not receive the call at 86%.

Not only is this an excellent outcome that fewer members have their income suspended, but it also means less time is spent following up on those who have had their income suspended, meaning that our administration staff can be freed up to add value to members’ lives in other ways.

MOVING FORWARD

Our hope is that in the next 18 months, our New Money call will develop into a full needs analysis for the household, incorporating information about the household income so that we can optimise the benefit distribution for the child, that is to pay out enough to meet their needs but not too much that there is no benefit left at the end. ■

¹ Income suspension rate is a key portfolio measure of the number of members receiving their regular income as a percentage of those who should be receiving their regular income. It is used throughout FBS funds to ensure service delivery.

UNCLAIMED BENEFITS – A TRACING SUCCESS

The boards of trustees of retirement funds are meant to trace those who were financially dependent on a deceased member of the retirement fund but in practice the trustees often do not have the capacity or specialisation to trace on their own and there is a build-up of unclaimed benefits. They then often outsource tracing to a third party.

Fairheads has a dedicated tracing team to help find those to whom benefits are due and who cannot be located for whatever reason.

In this particular case study, a female member of a certain retirement fund had three children aged five, 10 and 14 when their mother died. The case was handed to Fairheads in 2021 and our initial tracing efforts established that the retirement fund member had passed away in 2001 – which meant there was a shocking 20-year period of the benefit remaining unclaimed.

Our further investigations led to the eldest daughter who advised that she had two siblings. They had been taken care of by their grandparents when their mother died.

All their mother's documents had been in their grandparents' care and had either been lost or

were disposed after their grandparents' deaths and so were not available to the children who therefore had no idea there was a s37C death benefit due to them.

Fairheads requested a number of supporting documents from the siblings to identify their relationship to their mother and, after the relevant documents were submitted and verified, an amount of approximately R450,000 was paid to the siblings. This was extremely welcome especially to the second sibling who had recently been retrenched and was unemployed.

Below is the note of thanks that the tracing team received from one of the siblings:

Dear Fairheads Team

On behalf of my siblings and I, I would like to express our gratitude for the successful resolution of our mother's unclaimed benefits. We are beyond grateful for your help.

Thank you and may you continue to successfully help others like us.



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