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FAIRHEADS

Southern Africa's leading independent administrator for products and services in the retirement and fiduciary industries

Beneficiary funds helping the elderly

By David Hurford, Chief Executive Officer

One of the trends we have seen in recent years is the emergence of death benefits being placed in our beneficiary funds for elderly parents of deceased retirement fund members. This is notable because beneficiary funds have since their inception been primarily seen as a vehicle to house benefits for minor dependants of deceased retirement fund members.

Much has been written about the "sandwich generation", those middle-aged individuals who find themselves supporting both their children as well as their elderly parents. In South Africa, we also know about the Black Tax, the financial responsibility borne by many African people who are earning and who provide - or are expected to provide - support to less financially secure family members. ▶

In this issue

The legal system in South Africa makes provision for a dual support system for the indigent elderly: the common law places the burden of support on their financially able children and the State has a constitutional obligation, as it recognises social assistance as a basic human right within a financially constrained paradigm.

So the scenario where a member of a retirement fund passes away naturally means that their parents, for whom they have provided financial support, must be included as dependants when Boards of Trustees conduct their Section 37C process.

A RISE IN MENTAL CONDITIONS AMONG THE ELDERLY

The advances in medical treatment have had an impact on our physical longevity, however there is growing evidence that the mental capabilities of the elderly may not be doing as well. Dementia, Alzheimer's and numerous other mental conditions appear to be on the rise.

The research bears this out. It is estimated that 36 million people were living with dementia worldwide in 2010, and that this number will increase to 66 million by 2030 and 115 million by 2050 (*2012 World Alzheimer Report*). Low- and middle-income countries are the source of nearly two thirds of these statistics, with the sharpest increases in numbers set to occur there as elderly populations grow.

The result is that we are seeing growing numbers of elderly dependants unable to manage their financial affairs. In this case it is usually the adult children who step in to assist, needing to bear the responsibility of managing investments, ensuring the payment of an income, and if the parent is at home, arranging a roster of caregivers etc. For those who can afford it, a care home can be the answer regarding the day-to-day care but finances still need to be managed.

> *The result is that we are seeing growing numbers of elderly dependants unable to manage their financial affairs.*

OTHER TRENDS PLAYING OUT

Compounding this family scenario is a rise in emigration figures. Reliable statistics are hard to find but it is known that emigration numbers are on the rise for several reasons - mainly safety and economic stability, as well as quality education. Additionally many people are opting to become "digital nomads", spending large tracts of a year working abroad. How will they ensure proper care of financially dependent parents?

Indeed, over the past few months at Fairheads we have received a number of benefits payable to such elderly dependants where their remaining children have emigrated, making it very difficult to manage the affairs of their parent. In most cases, Fairheads engages directly with the nursing home to ensure their needs are met.

Another broad trend is that of client mobility. Socio-economic pressures have resulted in the youth and employable adult population moving from rural areas to urban areas in search of job opportunities. A further six million South Africans are expected to migrate to urban areas by 2035, according to the South African Affordable Residential Developers Association.

It is the elderly, mainly the "gogos" who remain in the rural areas. Who assists them if they develop mental disease? An interesting study titled *Dementia Prevalence in a Rural Region of South Africa: A Cross-Sectional Community Study* (PubMed, de Jager et al) shows that dementia prevalence estimates were higher than expected for low-income rural communities compared to their urban counterparts. So, if most young people have migrated to urban areas how will they care for elderly parents in rural areas?

BENEFICIARY FUNDS ARE A POWERFUL TOOL TO ASSIST

Beneficiary funds can play a very important role as a vehicle for death benefits payable to elderly dependants.

We have needed to examine a few factors however. For our funds, we have had to look closely at whether the policies and procedures we have developed over the years are appropriate for older members with such disabilities. Two areas of particular interest are the Adhoc Capital Request policy and the way their funds are invested.

For minor dependants, our Adhoc Capital Request policy considers the amount which would be required to get the child through school. Priority is given to educational expenses as far as possible. Clearly though this is not appropriate for an elderly member.

From an investment perspective, there is no defined investment time horizon as the benefit will likely be held until the death of the member, an unknown period. The benefit therefore needs to be invested differently for these members.

Our approach to date has been about conducting a proper needs analysis, including reviewing social worker or medical reports, and catering for a tailored approach to capital payments and investments. For example, where support needs are regular and predictable, such as the payment of nursing home fees, we can tailor the investments towards producing enough investment income to cover these costs.

CONCLUSION

We believe that the beneficiary fund industry as a whole needs to apply its mind to solutions and start informing and educating boards of trustees as well as the broader public about the potential use of beneficiary funds for elderly dependants suffering from mental disabilities.

Some stakeholders are picking up the issue, with the respected financial journalist, Maya Fisher-French, writing on this very topic recently and suggesting to individuals that they consider including a beneficiary fund on their retirement fund nomination form for the trustees to consider regarding elderly parents who may become incapacitated.

MESSAGE FROM THE CEO

David Hurford

Economic times are hitting individuals and communities hard; in this issue of Fairheads Times we run two articles that in their own way contribute to alleviating hardship. Our lead story points to the interesting trend of elderly parents being able to benefit from beneficiary funds; and our guest article by Navin Lala of Old Mutual Alternative Investments looks at the ways in which private market investments can help diversify investment portfolios and produce a sound financial return while investing in the real economy for the benefit of South Africans.

We provide an update on our innovative field agent programme which goes a long way to assisting guardians and caregivers, and beneficiaries keep their personal information up to date so that their benefits can keep flowing.

And on the umbrella trust side of Fairheads business, we look at the renewed interest in this secure and cost-effective vehicle as a means of protecting and growing benefits for beneficiaries.

The world stage is uncertain and volatile at this time, with regional wars and national elections coming up in many countries. More than ever, a steady and calm head is needed and that is what we strive to provide at Fairheads through the experience we have gained over many decades in trusteeship and good governance.

I hope you enjoy the read.

Kind regards
David Hurford
Chief Executive Officer

HARNESSING THE POWER OF PRIVATE MARKETS TO BUILD BETTER INVESTMENT PORTFOLIOS

Navin Lala

Despite private markets' proven returns, institutional investors remain under-allocated to this significant growth opportunity, notes Navin Lala, Client Director at Old Mutual Alternative Investments.

Recent changes to Regulation 28 of the Pension Funds Act in South Africa have allowed retirement funds to significantly increase their exposure to private markets and infrastructure opportunities in particular. And while interest in this space is growing, adoption rates have been slow due to the limited understanding of this new investment paradigm.

Over the past decade, private markets, also known as alternative investments, have gained prominence in multi-asset portfolios, offering compelling features from a risk-return and impact perspective. These investments provide unique opportunities not readily available in public markets.

The US listed equity market, representing approximately 45% of the global equity market capitalisation, has experienced a steady decline in the number of listed companies. In 1996, there were over 8,000 listed companies, decreasing by more than 50% to about 3,700 today.

Similar declines are observed in London's FTSE and in South Africa on the JSE. Furthermore, companies stay private for longer periods, with approximately 95,000 private companies globally having annual revenues exceeding $100 million, compared to around 10,000 public companies with similar revenues.

The private assets universe, 850% larger than the listed space, therefore offers access to more growth and unique opportunities in niche sectors not readily available in public markets.

Private market assets, including infrastructure, private equity, mezzanine debt, and private debt, typically have lower correlations to traditional stocks and bonds. Infrastructure, in particular, offers long-term, predictable cash flows with lower volatility, more diversification, greater risk mitigation and enhances overall portfolio returns and stability.

Real assets like infrastructure provide inflation protection due to built-in escalation features in revenue streams, similar to inflation-linked bonds, making them well suited for hedging long-term liabilities.

Private market investing is well-suited to active ownership compared to publicly listed companies. Managers can play a transformative role, not only providing growth capital but also driving strategic alignment with social or environmental goals such as clean energy transition, gender equality, and access to decent work, unlocking sustainable value.

Private market investments are inherently long-term, allowing companies to focus on implementing their strategies without the pressures of delivering short-term earnings. A long-term investment horizon provides certainty, enabling sustainable improvements and compounding incremental gains.

Engagement with the pension fund industry reveals a clear intent to serve as responsible asset owners, recognising that there are limited opportunities for impactful agendas within a public market construct. The industry aims to increase allocations to private markets, acknowledging their alignment with impact goals such as those outlined by the United Nations Sustainable Development Goals.

KEY CHALLENGES

The challenges and constraints of allocating to private markets include limited expertise and experience in conducting private market due diligence, challenging manager evaluations and selection decisions, complexity in understanding fund structures, legal arrangements, and fee structures, additional costs compared to traditional public market assets (legal, due diligence costs) and a lack of liquidity.

Private markets are still relatively new in South Africa, with many pension funds having limited exposure to this asset class. A lack of familiarity is understandable, as investors don't invest in what they are unfamiliar with, especially regarding long-term illiquid assets.

With limited investment return opportunities in the South African market, where listed equities (7.3% SWIX) have underperformed bonds (8% ALBI) over 10 years (according to data by SBG Securities), investors cannot afford to be earning roughly 2% in real returns from equities over 10 years. In this case, other sources of return, such as private markets, cannot be ignored.

The "New World Portfolio" introduces exposure to alternative returns across the full capital structure, providing more sources of return and more diversification. The critical difference is that listed assets are traded on an exchange, while private market assets are privately negotiated.

For pension funds looking to develop their expertise and knowledge in private markets, there is tremendous value in getting exposure to experienced private market managers who have managed private assets across the capital structure, and through various cycles, who can share their knowledge and learnings.

The evaluation and selection of private market managers are not too dissimilar from the process of evaluating public markets managers, with a few aspects that require more focus.

With private market investments being long-term, the track record and sustainability of the manager are critical, as investors would want to partner with someone of stature and stability who will last the test of time and still be there to manage and exit assets and return capital. Investors would want to avoid the risk of partnering with a manager who may not be around in 10 years.

Managers must have the ability and track record to originate (source), execute, and exit transactions and generate returns for investors. An inability to do this results in investors holding cash in uncommitted assets, resulting in unnecessarily long periods of cash drag, ultimately leading to underperformance.

Lack of liquidity is a reality in private markets. However, it's important to remember that this allows the asset to grow and compound returns over time. Short-term liquidity is always at the expense of long-term returns, so it is essential to construct a portfolio where liquidity can be accessed from shorter-term listed assets such as cash, bonds, and listed equities.

THE INVESTMENT OPPORTUNITY

Private market investing may have more complexity than public market investments in certain aspects and is not without its trade-offs. However, it should never be seen as an asset class that replaces public market investments. It should be viewed as a complementary strategy to public market exposures – especially in the current environment where there is a dire need for greater real returns. When looking at the holistic portfolio, the portfolio enhancement and impact attributes make it a worthwhile investment.

Private markets can be viewed as a pure form of active management, given their direct influence on transforming and growing businesses, making them well suited to creating a positive impact at the intersection of profit and purpose. ■

FAIRHEADS FIELD AGENTS STILL HITTING THE ROAD WITH SUCCESS

In 2015, Fairheads Benefit Services launched a novel and highly effective grassroots communications initiative in the form of a field agent programme. This programme operates with a 4x4 vehicle traversing the SADC region to make direct contact with clients. It has continued successfully for eight years now; it complements the guardian roadshows and is an integral component of our philosophy to "talk and not just write."

The main purpose of the field agent programme is to make contact with "non-compliant" clients, that is those who have not sent us or not filled in the relevant paperwork for the beneficiary fund to pay out. As such, we are generally mandated by our stand-alone tracing department who have identified where the member or guardian may be traced, but the field agents also do their own scouting.

Once we arrive in a region the team typically set up a mobile office in a location which could be a community, church or school hall, the car park of a police station or a TEBA Limited branch. Out come the table and chairs, the laptop and Poloko Mohami and a colleague are ready to help!

Poloko heads up the field agent programme and will drive with a colleague who is well versed in the language of the region which they will visit. They wear Fairheads-branded bibs or shirts in order to reassure clients that they are indeed from Fairheads and can be trusted.

Poloko Mohami

Remote regions are often visited and so our field agents have attended a 4x4 training course before tackling some of the country's rougher roads.

REASONS FOR NON-COMPLIANCE

To take a step back, how could guardians or beneficiaries not have submitted the documentation necessary for Fairheads to continue paying an income? Some of the reasons for non-compliance include:

- Mobility – a change of address is not communicated to Fairheads
- A guardian or caregiver may be unable to read
- Or they may not fully understand how to go about completing and submitting documents
- They may have resource challenges in faxing or emailing documents such as being unable to afford transport
- There may be a change in guardianship
- A member may have passed away

HOW THE FIELD AGENTS CAN HELP

In our experience, the single most serious challenge is that 18-year-old members upon "termination" either do not know that they are eligible to receive the money in the beneficiary fund or they are unclear what needs to have been done in order to receive the funds. They may not have been told by their guardian about the funds due to them, nor seen our annual member communication called Asikhumele where we advise and explain to teenagers to get an ID once they turn 16, open a bank account and use their discretion as to whether to leave the funds in the beneficiary fund at age 18 to help pay, for example, for tertiary education.

The field agents try to phone the non-compliant member ahead of time about visiting their region, or they will make a home visit to the last-recorded address for the member. Once the member makes contact with the field agents face to face, they will provide the member with the necessary form to send once they have got their ID and advise them to send it to Fairheads, e.g.via a TEBA branch if they do not have an email address. Where documents can be filled out then and there, the agents will scan the completed documents for processing back in the office.

Overall, the Fairheads field agent programme is highly effective and has a high rate of success. We believe we are the only company in the market offering this service.

Q&A WITH POLOKO MOHAMI, HEAD OF THE FIELD AGENT PROGRAMME

What's the best thing about the job?
Resolving the non-compliant cases and reaching to our clients. A simple "thank you" from a client after resolving their case and tracing them, goes a long way to improving my attitude and productivity.

What are the main challenges?

- Clients relocating and not updating their new addresses or contact details
- Locating clients with PO Box addresses, with no contact details at all
- Clients not having compliant documents on our arrival, for example no ID or bank details etc
- Lack of trust from traced clients who do not have information about Fairheads

What languages does the team speak?
Each person in the team speaks specific languages, and it is safe to say we can accommodate all the SADC languages.

What motivates you as a team?
Providing outstanding customer service is what drives the team. We prioritise giving positive outcomes. Our members are our priority and we will go beyond and above to ensure they're compliant at all times.

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A new and fun way to communicate

We are pleased to launch a series of five animated videos explaining the basics of beneficiary funds and umbrella trusts. Cartoon-style and easy to understand, the videos are in line with Fairheads' approach of "let's talk and not just write". They can be found on our YouTube channel at www.youtube.com/@fairheadsbenefits and are posted to our social media platforms.

The topics are based on the most commonly asked questions by our guardians and members and cover the following:

- Why is your money in a beneficiary fund?
- How to stay in contact with a beneficiary fund.
- How to ask for a payment from a beneficiary fund.
- Why the beneficiary fund needs your banking details.
- 18 years old? This is what you must know about the beneficiary fund.

Please feel free to share them as you wish.

Widening the net for benefits paid into umbrella trusts

Over the past few years Fairheads has been raising awareness of the powerful advantages to be gained by paying proceeds from various sources into our Fairheads Legacy Trust, an umbrella trust product that provides a secure and cost-effective solution.

We are pleased to note that there has been a further upswing in demand with a major bank and a large life insurance company respectively coming on board to use the Fairheads Legacy Trust as the default for accepting monies due to minor nominees. The sources of funds are no longer just employment-related and vary from life insurance payments to education, disability, medical malpractice and testamentary monies etc.

This growth into the corporate retail market is gratifying as it shows that a wider spread of the market is seeing the value of umbrella trusts to protect and enhance lump-sum benefit administration and investment. Those paying policy premiums can rest assured that the financial needs of their dependants will be taken care of in the event of their death.

As a brief reminder, here are some of the advantages of umbrella trusts:

- 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 surviving family;
- 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;
- As mentioned above, the costs are low compared to a stand-alone trust, because these costs are shared by all the beneficiaries of the trust; and
- In best practice, investments are handled at arm's length by best-of-breed asset managers, with the Board of Trustees working together with an investment consultant.

To find out more about the Fairheads Legacy Trust product, please visit our website or contact Eric Sopeni eric@fairheads.com

CONTACT A FAIRHEADS CONSULTANT if you would like to discuss any of our products or services. Email: consulting@fairheads.com

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