

# Evaluating Umbrella Funds



## WHICH UMBRELLA FUND TO SELECT?

The current retirement fund and employee benefit landscape in South Africa is increasingly complex. With numerous service providers and a variety of options available, selecting the right fit for both the employer and its employees requires careful consideration.

*"If you keep doing what you always do, you'll just get what you always get." - Albert Einstein*

## WHAT IS AN UMBRELLA FUND?

An umbrella fund is a retirement product that allows multiple employers to utilize a single pension or provident fund structure to help their employees save for retirement. These funds are managed by a professional board of trustees and have evolved significantly over the past decade, catering to a wide range of employer needs, from standard, cost-effective solutions to sophisticated investment options and risk benefits.

Whether an employer is reviewing an existing umbrella fund offering or considering a new one, numerous aspects need evaluation before making a final decision on the right provider for the company. At GraySwan, we have assisted numerous clients in reviewing their umbrella fund offerings through our independent consulting services. We help clients select the most suitable umbrella fund provider and implement best practice pre- and post-retirement investment strategies.

## KEY ASPECTS IN EVALUATING AN UMBRELLA FUND:

### MEMBERSHIP REQUIREMENTS

Each umbrella fund has specific membership requirements, including minimum member numbers and monthly contributions. These requirements are the starting point for identifying suitable umbrella fund administrators for the employer.

### GOVERNANCE & REPRESENTATION

Proper governance, compliance, and risk management are crucial for any umbrella fund provider. We evaluate the board of trustees, their experience levels, governance processes, relevant policies and rules, and the transparency and interaction levels between the fund provider and employers and employees.

### ASSET SIZE AND FUND GROWTH

Larger umbrella fund providers may offer better economies of scale and lower fees, but bigger is not always better. Smaller, innovative providers have their own advantages. The choice depends on the specific needs and preferences of the employer.



## INVESTMENT STRATEGIES

Umbrella fund providers offer a range of investment strategies, from predefined default strategies to customizable platforms. Our evaluation includes reviewing default options, available alternatives, fees, performance, and the investment teams managing the portfolios. It's essential to understand both pre-retirement and post-retirement options to ensure a seamless transition for employees.

## RISK BENEFITS

Most umbrella funds include risk benefits such as life cover, disability cover, and funeral benefits. Employers must assess risk premiums and underwriting requirements within the total fund offering.

## COSTS & FEES

Costs can be expressed as a percentage of payroll, fund value, or member contributions. The Retirement Savings Cost (RSC) disclosure standard enables employers to compare costs effectively. While costs and fees are important, they should not be viewed in isolation. Qualitative factors like investment platform flexibility and minimizing conflicts of interest are also crucial.

## SERVICE PROVIDERS AND CONFLICTS OF INTEREST

Multiple service providers are involved in an umbrella fund, including administrators, risk benefit administrators, investment managers, and consultants. Identifying and managing conflicts of interest is vital. Appointing an independent investment consultant can help manage these conflicts and empower the employer to select the most suitable provider.

## MEMBER COMMUNICATION

Effective communication is crucial, including annual benefit statements and online access. The sophistication and frequency of communication should match the needs of the employer's workforce, with younger members potentially prioritizing advanced mobile apps over costs and investment options.

## CONCLUSION

Selecting the right umbrella fund requires a thorough evaluation of various aspects to meet the specific needs of the employer and employees. There is no one-size-fits-all solution, and the chosen provider should address unique requirements.

GraySwan offers independent consulting services to assist in selecting the most suitable umbrella fund provider and implementing a best practice investment strategy. For assistance with reviewing your current fund or choosing a new provider, contact us today.

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