



Expenses Guidelines

Presented by

Mary Takavarasha

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Introduction



High Expenses

- More than realised Income and contributions

Member Prejudice

- Decline in asset base
- Illiquid assets/ failure to pay benefits

Offsite Inspection conducted

- Determine major cost drivers
- Corrective measure



Introduction...



Offsite inspection conducted in 2020

Profiling of expenses

Determine Expense Drivers

Self Administered Funds Cost Drivers:

1. Investment management Fees
2. Administration fees

Insured Funds Cost Drivers:

1. Investment management Fees
2. Administration fees

Stand Alone Funds Cost Drivers:

Staff costs, board fees, property expenses, licensing fees, investment management fees (Outsourced)



Introduction



Offsite culminated in the issuance of the Expenses Guideline through Circular 41 of 2021

Guidelines Legal Basis

- Section 3(1) of the Insurance and Pensions Commission (Issuance of General Guidelines and Standards)
- Regulations, 2020, published in Statutory Instrument 69 of 2020.

Purpose of the Guideline

- To prescribe thresholds that should be observed in defining the rate and basis for charging expenses for the major expense drivers;
- To remove conflict of interest and breaches of fiduciary duty by service providers to pension funds;
- To cause disclosure on the proportion of contributions earmarked for expenses in line with the funds' rules.

Definition of Terms



- ❖ **Inactive Fund** – fund whose sponsoring employer no longer contributes/paid up or under dissolution
- ❖ **Mature Fund** – a fund where more than 60% of the members are no longer contributing to the fund as a result of retirement, resignation and any other reason
- ❖ **Insured Fund** – a fund under the administration of an insurance company administered through one or more policies of an insurance and whose assets are registered in the name of the insurer.
- ❖ **Self Administered Fund** – a fund that is administered by registered fund administrators and insurers whose assets are registered in the respective fund's name
- ❖ **Stand Alone Fund** – self administered funds which own and control their administration structures (own employees) for the purpose of operating the fund



Definition of Terms



- ❖ **Administration Fee** – fee charged on a fund by an administrator/insurer for the administration of the fund. This is applicable to self administered or insured funds which outsource administration services
- ❖ **Administration expenses** – total expenses incurred in running a fund and include staff costs, audit fees, actuarial fees, property management and record keeping
- ❖ **Investment Management Fees** – fees charged a fund by an Asset Manager for managing the fund's asset portfolio and includes asset management and custodial services
- ❖ **Minimum Individual Reserve** – amount equal to accumulated value of the member's and/or employer contributions less expenses as determine with the Expenses Guideline plus any amount payable in terms of the rules of the fund in excess of the member's contributions, increased or decreased with fund return from the date the member joined the fund.



Roles and Responsibilities of the Board of Trustees



- ❖ Identifying the basis and rate of expenses taking into account the age profile of the fund – where age profile of an active fund demands basis other than contributions, this should be spelt out in the expenses policy
- ❖ Monitoring expenses to ensure value for money;
- ❖ Alignment of rules of the fund with the guideline and that rules are explicit on the percentage of employer contributions going towards administration expenses;
- ❖ Ensure that the fees/expense structure of the fund conforms with the basis and caps in the guideline
- ❖ Assessing the impact of the expenses on the member's minimum individual reserve



Administration Fees/Expenses



➤ All fund rules to reflect the basis and threshold for administration fees/expenses:-

- Basis for charging fees for active funds shall be contributions actually received;
- Basis for inactive funds shall be total assets



Caps for Active Funds



Fund Type	Ratio	Cap
Self Administered and Insured	Admin Fee/Contribution Received	5%
ALL	Board Costs/Contribution Received	0.5%
Self Administered and Stand Alone	Admin Expenses/Contribution Received	15%
Insured	Admin Expenses/Contribution Received	10%



Caps for Inactive and Mature Funds



Fund Type	Ratio	Cap
ALL	Admin Fee/Assets	0.60%
ALL	Board Costs/Assets	0.01%



Investment Management Expenses/Fees



- ❖ Basis for defining investment management expenses shall be realised income/value
- ❖ Every fund should negotiate the appropriate threshold
- ❖ Service level agreements to reflect basis and thresholds for the expenses – funds have been requested to submit revised service level agreements
- ❖ Cost of guarantees in pooled investments shall not exceed 1% and shall be levied on the vested portions only
- ❖ Where there are guarantees on return, insurer can apply to the Commission for variation of the prescribed cost of guarantee



Effective Date and Transitional Provisions



- ❖ Effective 1 January 2022
- ❖ BOT and Fund administrators to ensure that fees/expense structures of funds; comply with the guidelines within 6 months after the effective date;
- ❖ Compliance maps to be submitted by 31 March 2022;
- ❖ Need for revisiting the sustainability of administration models;
- ❖ Need to consider cost cutting measures which do not compromise effective running of the fund;
- ❖ Need to review mandate agreements with service providers.





Thank you

