



Insurance and Pensions Commission (IPEC)

Guideline for Expenses

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Authorisation

This Guideline is issued in terms of section 3(1) of Statutory Instrument 69 of 2020, which empowers the Commission, whenever it considers it necessary, convenient and in the best interest of policy owners and pension and provident fund members, to issue general guidelines and standards.

1. Definition of Terms

Administration Fee means a fee charged on a fund, by fund administrators/insurers for the fund administration services. This is only applicable to insured and self-administered funds, which outsource administration services, and not to stand-alone funds.

Administration expenses means total expenses incurred in running the fund and this includes staff costs, audit fees, actuarial fees, property management and recording-keeping. Property management expenses excludes refurbishments, where major refurbishment is done, the treatment of such should be guided by the International Accounting Standards.

Investment management fees means a fee which is charged a Fund by Asset Managers for managing the Fund's asset portfolio and includes asset management and custodial services.

Inactive Fund – A fund whose sponsoring employer is no longer contributing/paid-up or under dissolution.

Insured Fund – A fund under the administration of an insurance company that is administered through one or more policies of insurance and whose assets are registered in the name of the insurer, mandated with the administration of the fund.

Mature fund- this is 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.

Minimum Individual Reserve- an amount equal to the accumulated value of the member's and/or employer's contributions, less expenses as determined in terms of this guideline, plus any amount payable in terms of the rules of the fund in excess of the member contributions, increased or decreased with fund return as from the date that the member joined the fund: Provided that the board may elect to smooth the fund return.

Self-Administered Fund – For the purposes of this report, means a fund that is administered by registered fund administrators and insurers and whose assets are registered in the respective name of the fund.

Stand-Alone Fund – These are self-administered funds which own and control their administration structures (having own employees) for the purpose of operating the fund.

2. Purpose of the Guideline

- 2.1. The purpose of this guideline is to prescribe thresholds that shall be observed by the pensions industry in defining the basis and rate for charging expenses, particularly the major expense drivers as identified through analysis of pension industry expense structures.
- 2.2. The Commission has observed that the absence of such guidance has given rise to conflict of interests and to breaches of the fiduciary duty of the service providers to pension funds. The offsite inspection conducted on expenses revealed unsustainably high expense ratios with expense to total income ratios going as high as 65% in some pension funds. Such ratios greatly prejudice the fund members since they indicate that more money is going towards administrative costs as opposed to benefiting members of funds through asset sweating. This reduces the fund's returns to its members, and, therefore, the value of the ultimate pension.
- 2.3. In view of the foregoing, the Commission considers that it is both appropriate and necessary to take regulatory steps to regulate fees and expenses. The fees and expense structures should enable the Commission to compare costs between various entities, thereby ensuring appropriate regulatory responses.
- 2.4. The Commission has come up with caps that shall apply in defining the amount of fees/expenses levied on a fund. The caps define the maximum levels and should in no way be taken as the absolute rate of fees/expenses for every fund.
- 2.5. The quarterly returns shall reflect the aggregated contributions and the portion transferred to the expense account. There shall be disclosure, through a footnote, on the percentage of contributions earmarked for expenses as derived from the fund's rules, and the proportion that monetary value transferred to the expenses account it bears to the contributions received. The fund administrator shall maintain a distinct account known as the "expense charge account" which shall constitute a line item on the fund's

Statement of Comprehensive Income and inflows and outflows into this account for the period under review shall be explicitly stated.

3. Responsibilities of the Board

3.1. The responsibilities of the board shall include the following: -

- I. Identifying the basis and rate of expenses. The trustees shall take into account the age profile of the fund when identifying the basis and rate of expenses. Where the age profile of an active fund requires that the basis be other than contributions being received, the trustees shall ensure that the policy governing expenses clearly spells out this justification.
- II. Monitoring expenses for the primary objective of ensuring that the cost matches the value derived by the fund through the service for which the cost is incurred.
- III. The trustees shall ensure that the rules of the fund are aligned with this guideline and the rules are explicit in terms of percentage of employer contribution going towards administration cost.
- IV. The Board shall ensure that the fee/expense structure of the fund conforms with the basis and caps stated in this guideline. In assessing this level of compliance, the Board shall also assess the impact of the expenses on the member's minimum individual reserve to ensure that it is aligned to the definition.

4. Administration Fees/Expenses

4.1. All fund rules shall reflect the basis and threshold for administration fees/expenses. The basis for charging fees for active funds shall be contributions received while that for inactive funds shall be total assets. The maximum thresholds shall be as tabulated below:-

Table 1: Caps for Active Funds

Self-Administered and Insured Funds		
Type of fees	Fees on contribution¹ (per annum)	Fees on Assets
Administration Fees	5%	Not allowed
Board Costs	0.5%	Not allowed
Overall Cap for Stand-alone Funds		
Administration expenses ²	15%	Not allowed
Board Costs	0.5%	Not allowed
Overall Cap for Insured funds		
Administration expenses	10%	Not allowed
Board Costs	0.5%	Not allowed

Table 2: Caps for Inactive and mature funds.

Type of fees	Fees on contribution	Fees on Assets³ (per annum)
Administration Fee	Not applicable	0.60%
Board Costs	Not applicable	0.01%

¹ Refers to contributions actually received

² This cap shall also apply in determining the overall administration expenses for self-administered funds.

³ Refers to assets under management

5. Investment Management Expenses.

5.1. The basis for defining investment management expenses shall be dependent on the asset class, with the following threshold set for different asset classes:-

Table 3: Investment Management Expenses.

Asset Class	Basis and Cap
Financial assets excluding private equity	Assets under management with a cap of 0.8% per annum of assets under management.
Private Equity	A percentage of dividend or income received.
Property	A percentage of gross rental income

5.2. Every fund shall be obliged to negotiate the appropriate threshold paying due regard to the need to ensure value creation for the fund members.

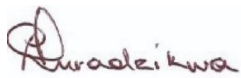
5.3. The service level agreement between the fund and service provider shall reflect the basis and threshold for the expenses.

5.4. Where a fund is invested in a pooled investment vehicle that provides guarantees, the cost of the guarantee shall not exceed 1% per annum of the guaranteed amount. The cost of the guarantee in a Guaranteed Fund shall only be levied on the vested portion. However, where the guarantee offered also includes a guaranteed minimum real return, the Insurer can apply to the Commission to vary the prescribed cost of guarantee.

6. Effective date and Transitional Provisions

Notwithstanding the amendments, the effective date for this guideline remains 01 January 2022.

The board of every fund and fund administrator shall take necessary steps to ensure that the fee/expense structure of the fund complies with the requirements of this guideline within six months after the effective date.

A handwritten signature in dark ink, appearing to read 'Muradzikwa', is positioned above the printed name.

Grace Muradzikwa

COMMISSIONER OF INSURANCE, PENSION AND PROVIDENT FUNDS