Pension funds for staff: how and why

Providing retirement funding to your employees may seem to be a daunting task, especially if you're unsure about what the benefits of registering with a fund are or are not certain how to choose the correct fund for both your company and your employees.

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SWI Financial Consultants' Wayne Paries, an expert on everything there is to know about retirement funding, answered 20 of your most pertinent questions about pension funds, their benefits, how employers gain the upper hand, and more.

Biz4Afrika: ***What is the most important reason for employers to include a retirement benefit plan in their staff remuneration packages?***

Wayne Paries (WP): The primary reason why employers should want to include a retirement plan in the staff remuneration is to assist their employees during their working life to build up sufficient retirement savings [to] provide an income during the time the employees are past retirement age and no longer employed. Employers also provide a retirement plan in order to attract and retain staff. Employers would aim to establish themselves against their peers and ensure they are an employer of choice and do so by offering additional benefits such as a retirement benefit plan.

Biz4Afrika: ***As an employer, what should one look for when deciding upon a pension fund for employees?***

WP: There are a number of factors to be considered and thoroughly investigated, and decisions would have to be made regarding the following:

- A Defined Benefit versus a Defined Contribution arrangement;
- A Provident Fund versus Pension Fund versus Group Retirement Annuities;
- Whether the Retirement Benefit plan will include supplementary benefits such as Group Life, Disability, Critical Illness and Funeral;

- An Inclusively costed Fund versus and Exclusive costed Fund;
- The Nett Retirement Funding allocation;
- Default portfolios versus Bespoke Investment Strategy and Investment Choice;
- Appointment of a reputable Administrator;
- Appointment of a reputable Insurer;
- Appointment of an Independent Employee Benefits Specialist Financial Advisor; and
- Member education value proposition.

Biz4Afrika: ***What are the advantages and disadvantages of having retirement funding for employees?***

WP: The advantages are:

- Becoming an employer of choice;
- Attracting a good calibre of staff;
- Retaining of good and core staff;
- Staff at retirement age would be able to retire;
- No need to provide a lump sum to a retiring and/or leaving employee from the company cash flow as this has been funded for over the working life of the employee; and
- Contributions to retirement funding and retirement savings are tax efficient.

The disadvantage is:

- Employees may resign prematurely to access their retirement savings.

Biz4Afrika: *If an employer decides not to provide retirement remuneration to its employees, what dangers would the employer face following this choice?*

WP: Some of the dangers an employer would face by not providing a retirement plan are:

- Will not be considered an employer of choice;
- Could lose key and high calibre staff to competitors;
- In certain industries not providing a retirement plan will be in contravention of sectorial determinations;
- Employees will seek to affiliate themselves with organisations that provide these benefits such as Unions, which may then lead to other changes the Union may
- impose on the employer, such as being involved in salary increase negotiations and disciplinary hearings; and
- Not being able to assist employees at the time when they leave service and retire.

Biz4Afrika: *How likely is that an employer who does not provide retirement benefits will see a high staff turnover?*

WP: The lack of benefits provided by the employer may result in a high staff turnover.

Biz4Afrika: ***What is the best way an employer can protect themselves from the economic responsibility of remunerating employees with retirement funding?***

WP: The best way is to include the retirement funding as a condition of employment and as part of the remuneration package offered to staff, and to ensure the contribution is set according to a fixed contribution scales.

Biz4Afrika: ***Which type of fund is best for employers: a defined benefit fund or a defined contribution fund?***

WP: A defined contribution fund is best for the employer as the employer does not carry the investment risk or guarantee any benefits.

Biz4Afrika: ***How do employers decide between pension funds, provident funds, or retirement annuity funds for their employees? Which type of fund is best for the employer?***

WP: The decision will be based on the profile of the company and staff members, and whether access to benefits upon resignation is a requirement by employees. As an example, if access to retirement savings upon resignation, dismissal and retrenchment is required by members then a Retirement Annuity may not be most appropriate. Similarly, some employees prefer the flexibility of receiving their full proceeds at retirement and then reinvesting to receive a monthly income, in this instance a Provident Fund would be more favourable as opposed to a Pension Fund which limits the amount that can be taken as a lump sum at retirement. Higher paid employees generally opt for the Pension Fund as their contributions are tax deductible on a monthly basis.

Biz4Afrika: ***Can an employer administer a retirement fund?***

WP: No, a licensed administrator would have to be appointed as an administrator.

Biz4Afrika: ***What makes an employee eligible for retirement remuneration, and is there a way employers can choose whom to enrol?***

WP: The eligibility is dependent upon the employer and will need to be reflected in the employer's staff benefits policy. The employee's employment contract should clearly make reference to whether employee benefits are applicable. An employer can select which category(ies) of staff is eligible; it would however be compulsory for all new employees who fall within that category(ies) to belong to the plan.

Biz4Afrika: ***Can and should temporary staff be enrolled in a retirement fund?***

WP: Generally, membership to the Fund is restricted to permanently employed staff.

Biz4Afrika: ***How does 'salary sacrifice' benefit the employer?***

WP: The premium paid to the retirement plan would form part of the employee's salary and the employer would not have to pay a contribution in addition to the salary earned.

Biz4Afrika: ***What is an employer's fiduciary duty with regards to retirement funding?***

WP: The retirement funding arrangement is an arrangement which is a separate entity to the employer and therefore the employer has no fiduciary duty in managing the retirement funding arrangement. The employer is however required to deduct contributions and pay over the contributions before the 7th day of the month following the month for which the contribution is due. The employer should also provide other parties to the Fund the necessary information in order for them to successful manage the Fund.

Biz4Afrika: ***What happens to the fund if the employer's business is sold or liquidated?***

WP: If the employer's business is sold as a going concern then in terms of section 197 of the Labour Relations Act, the retirement plan will continue. If the employer's business is liquidated then the business will cease to operate and the retirement plan will be liquidated in terms of section 28 of the Pension Funds Act. Employees will then be entitled to receive their portion of the Fund.

Biz4Afrika: ***Should an employer become more involved in a resigning or dismissed employee's decision on what to do with their retirement funding when they leave the company?***

WP: Yes, the employer should encourage the employee to preserve his pay-out and to contact a qualified Financial Advisor to assist with the future investment of the pay-out from the retirement plan.

Biz4Afrika: ***Should employers take an active interest in the state of their chosen pension fund, i.e. attend AGMs, etc.?***

WP: Yes, while it is not compulsory it is advisable for employers to attend AGMs or arrange for their Employee Benefit Consultant to attend on their behalf.

Biz4Afrika: ***Are there tax benefits for employers who have signed their employees up to a retirement fund?***

WP: Yes, in terms of Section 11 (l) of the Income Tax Act, the premium payable by an employer is deductible up to 10% of remuneration; in practice 20% is allowed.

Biz4Afrika: ***Should an employer opt for a fund that also includes other benefits, such as death, disability, or funeral benefits?***

WP: Yes, although it may reduce the amount allocated to retirement savings, employees require these benefits as often they do not make provision in their private capacity. In the event of these unfortunate happenings, the employee and/or their families look to the employer for some form of compensation to assist with the financial burden associated with these events.

Biz4Afrika: ***How does an employer go about signing its employees up for a fund?***

WP: Appoint the services of a Independent Professional Employee Benefits Specialist who will have the knowledge, expertise and experience to cover all the detail mentioned above. Generally no initial fees would be charged for this service.

Biz4Afrika: ***As an expert in the industry, what is the best advice you can give an employer looking to remunerate employees for retirement?***

WP: My advice would be to:

- Start as soon as possible;
- Appoint the services of a Independent Professional Employee Benefits Specialist who has the employee and employer needs as their number one priority;
- Remain abreast of all the issues relating to the retirement plan i.e. regulatory, investment performance, etc.;
- Ensure that risk benefit premiums and management fees remain competitive; and
- Ensure members/employees are kept informed on a regular basis and gain understanding of how their Retirement Fund Plan works and the benefits they have.