

Retirement



which needs to make a number of things clear, including the investment goals. Trustees are also expected to evaluate the type of investments made in a fund. So, members are protected by legislation that compels funds to select appropriate investment vehicles.”

While it is therefore very unlikely that certain funds will prove disastrous over the long run, investors should still take care to ensure that the funds suit their individual risk profiles.

With employee benefits, the choice the member can exercise is often dependent on the type of investment portfolios picked by the fund trustee. Some funds offer no investment choices while most of the larger funds offer individual investment choices.

Where there is choice, you are able to change the portfolio if you are dissatisfied with the performance of an investment choice. These funds typically have an array of investment portfolios to choose from, ranging from a pure guarantee to a high-risk type portfolio. Within the range, most contributors find something they are comfortable with.

However, as we saw with the recent recession, there are years when investment performance is low, no matter the type of portfolio. In the long term though, these investments invariably outperform the option of keeping the money in the bank. “You must have a long-term aim and you must never try to beat the market with investment savings.”

Although many investors welcome additional choice, this comes at a cost. Therefore, most investment funds have a default investment portfolio for members who prefer having lower fees. Employees of a company participating in an umbrella fund are free to select different to meet their individual needs.

The choices are normally grouped in bands. The first band has low administration fees but offers no choice. Products in the second band offer a choice of underwriting and products in the third band give members a choice of underwriting and a choice of investments. With each higher band, the administration fee increases.

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With legislation curbing the penalties charged, there is more choice for employees who contribute to retirement annuities, to move between funds. More recent legislative changes prohibit brokers from taking commission on transfers from one fund to another, to prevent what is known as churning. In the past, unscrupulous brokers would churn members from one fund to another, with no real benefit to the members, so they could pick up handsome commissions. The legislation ensures brokers act in the best interests of members at all times.

By law, brokers are not allowed to push a limited amount of products without properly informing the investor. The FAIS Act requires brokers to always act in the best interests of investors. This also applies to brokers who are linked to service providers known as tight agents. These intermediaries must disclose they are tight agents and that they are only going to sell particular products. It is then up to the investor to decide whether to invest in these products or whether to look at a larger range of products.

Consumers have legal recourse if brokers do not act in their best interests. You can complain to the FAIS ombud regarding employee benefits products, contact the pension funds adjudicator or there is also the option of a legal case. 