momentum

FundsAtWork adviser newsletter

Edition 2 ▪ December 2012

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Festive Season 2012

It's your world

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This is the easy print version of the newsletter. To do our part for the environment, we have placed an easy onscreen read version on our website. Click here to try it out.

Editor's note

There are two ways of being happy: We must either diminish our wants or augment our means – either may do – the result is the same and it is for each man to decide for himself and to do that which happens to be easier.

Benjamin Franklin

Perhaps now more than ever, there should be no greater value than gratitude for what we have in our lives. Benjamin Franklin may not have been far from the truth in his idea about happiness. No, of course, money cannot buy us happiness, but responsible long-term financial planning allows us to live better and more securely within our means.

We all want to afford a comfortable life while protecting our families and our lifestyle against risk, as well as being able to save adequately for our futures. Yet most of us would argue that these are not "wants" but actually "needs" – indeed, needs that can't be ignored.

In this newsletter, our last for 2012, we take a look at consumer behaviour and the need for sound financial advice, and we show how changes in the South African employee benefits landscape impacts your world, and that of your clients.

I take this opportunity on behalf of everyone on the FundsAtWork team to wish you a safe and peaceful holiday season filled with appreciation for being able to attain the things you need, and be mindful of those you want. I trust you and your families will take the time to rest and recharge ahead of the New Year.

Regards

Brigitte

All the latest documents you need

Legal	
Legal update 6/2012	Strengthening Retirement Savings – Overview of the 2012 Budget Proposals
Legal update 7/2012	Section 13A – Due date for the payment of contributions
Legal update 8/2012	Preservation funds
POPI fact sheet	Protection of Personal Information Bill quick read
New marketing material	
Family Protector mini brochure	New concise marketing tool for FundsAtWork's famous Family Protector
FundsAtWork employer portal	Quick overview of all the advantages of doing it online
New business support	
Quote in detail booklet	Same document you have come to rely on, updated
Installation booklet	Now including advisory body details, enabling us to enhance our service delivery
Market update	
Cues December 2012	An overview of what's been happening in the markets
Adviser newsletter	
December 2012	Download this newsletter, or any other, by clicking on the "Newsletter" tab on our website

FundsAtWork: It's your world

I am often asked: why do you get up in the morning? For me, the answer is simple: to get coffee! However, more important than a cup of coffee is the ability to make a difference in the lives of each one of our unique clients. This includes benefit consultants, investment advisers, employers and members covered by our insurance products or those who are part of the umbrella or preservation funds.

Making a difference is at the heart of Momentum, and we strive towards the financial wellness of members and their families. For this reason, FundsAtWork has adopted our new positioning statement: "It's your world", which represents the renewed focus of FundsAtWork and will be the basis for our interaction with each of our stakeholders in the years to come. "It's your world" stands for our commitment to understanding the unique needs of our stakeholders and our commitment to building products and processes aimed at meeting these unique needs.

People are unique. Like the way I prefer my morning coffee, each person has a unique way in which they prefer their coffee. I will not try to convince you that pouring milk before boiling water is better, but the topic itself should make us appreciate our differences in tastes. In the financial services industry, we are changing the way that we, as product providers, view our clients.

In the past, the focus was on demographic information as the basis for understanding clients. Aspects like age, gender, race and salary were assumed to be the all-encompassing measures. Products were built for the average member and benefits hardly ever considered the underlying needs.

At FundsAtWork, our view is different. When building an understanding of our clients, we are now starting to consider psychographic profiling. Here we look at aspects like our clients' views towards savings, protection, the importance of their family and their aspirations in life. In other words, the things that make our clients get up in the morning. We offer a suite of insurance and retirement products that ensures that, with the help of appropriate financial advice, these unique needs can be met.

For employees, these unique needs can be summarised as a need to replace their income under different life events like death, disability and retirement.

Employers have the need to ensure that the benefits offered to their employees are adding value. They also have the need for financial advice in understanding and unpacking these needs to ensure that appropriate benefits are selected.

As a financial adviser, your need is that we as product provider deliver on our promises and support you with appropriate products and processes to enable you to give the right advice.

It's your world – employee needs

Given how unique members are, FundsAtWork offers Insurance Flexicovers and Insurance Life Eventing in order to address the following needs.

Paying off a home loan and other debt

Should an employee die or become disabled, one of the main needs is to secure a home for their family. With FundsAtWork's group life, accidental death and lump sum disability cover, this need can be effectively addressed. With FundsAtWork Life Eventing group life cover, employees' changing needs can be automatically met as they get older.

Providing for their family

In the event of a breadwinner dying or becoming disabled, the need to ensure that the family still has an income to support their expenses, such as education and general maintenance, is vital. Once again, appropriately structured group life, income disability or lump sum disability cover will address this need. FundsAtWork's Family Protector benefits are also built with families in mind.

Providing for themselves when they retire

Every employee dreams of the day when they can retire in comfort. To address this need effectively, the FundsAtWork Trustee Lifestage Strategy is aimed at providing market leading investment returns while effectively managing the risk of volatile markets as people approach retirement. The Momentum Lifestages portfolio has been one of the best performing portfolios in the market, illustrating FundsAtWork's commitment to adding long-term value to members, in support of their retirement dream.

It's your world – employer needs

Recognising the unique needs of each employer is crucial for an efficient advice process. In order to support this advice process, FundsAtWork has built a new employer retirement solution, Entrepreneur², that caters for the needs of employers with existing assets of more than R50m and are considering moving from a standalone retirement fund to an umbrella fund. Entrepreneur² offers additional pricing and product flexibility for the financial or investment adviser to tailor a product and pricing solution that will address the needs of larger employers.

With Entrepreneur², an adviser will be offered a range of pricing structures, which balances product administration and asset management fees, with asset based administration fees. A range of investment portfolios are offered, which the adviser can use to tailor a unique lifestages solution for their client. This includes flexibility on deciding which building blocks should be used as well as flexibility as to the appropriate lifestage glide paths for an employer. The range of investment portfolios include active management, multi-management, passive and guaranteed portfolios. A unique pricing structure will be created to ensure that members are incentivised to save more towards retirement and to increase their retirement replacement ratios.

It's your world – adviser needs

In supporting the advice process, FundsAtWork offers benefit and investment advisers the opportunity to address member and employer needs effectively with flexible products and processes. Investment advisers can earn up to 0.5% of fund assets per annum for providing value adding investment advice to members and advisory bodies. FundsAtWork Asset Consulting also provides the necessary support to advisers who need investment advice.

"It's your world" therefore encompasses the passion that FundsAtWork has to address the needs of advisers, employers and members. It is at the heart of everything we do and it encapsulates our commitment to you as the adviser.

We look forward to partnering with you during 2013 on our journey in addressing the needs of our clients, because it's your world.

Regard Budler

Head: FundsAtWork

Multiplication through division – you do the math

The importance of small, medium and micro enterprises in closing the retirement and insurance gap in South Africa.

In South Africa, the Small, Medium and Micro Enterprise (SMME) sector is an essential part of promoting and achieving economic growth through the widespread creation of wealth and employment (van Scheers, 2010). SMMEs account for the majority of employment in our economy, with smaller employers accounting for almost 80% of all newly created jobs.

By now we are all fully aware that South Africans are grossly under-insured and their retirement savings are appallingly low. This has resulted in a retirement savings and insurance gap (True South Actuaries and Consultants Bureau of Market Research University of South Africa (UNISA), 2010). Momentum's Financial Wellness Index, which tracks South African households, found that 50% of households are in the "drifting unwell category", which means that their financial position is unstable. This lack of financial wellness is broadening the retirement and insurance gap.

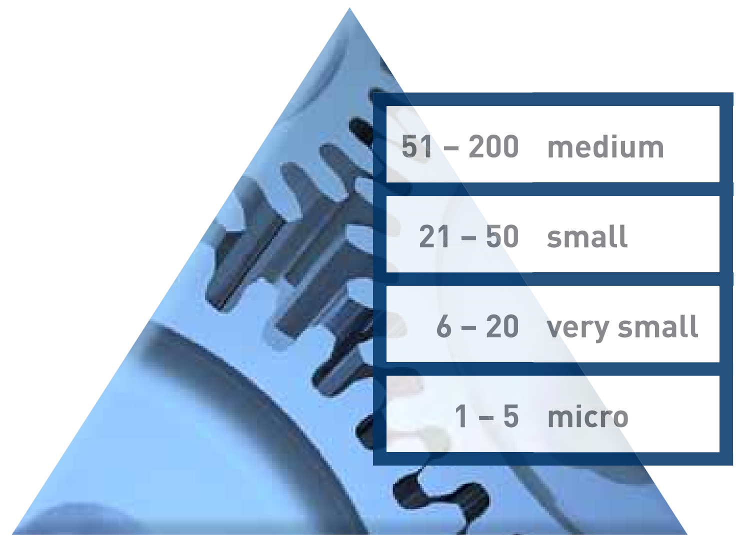
Employer-sponsored benefits are often the only form of retirement savings and insurance cover individuals have. This underpins the critical role that private sector businesses have to play in closing the retirement and insurance gap in South Africa.

Opportunities exist for financial advisers to grow their practices in the SMME segment, by numbers or by industry.

Some schools of thought argue that SMMEs employing fewer than 50 people have more basic needs for employee benefit solutions. Due to the expenses associated with young start-ups, the business owner may only be concerned about the very basic risks associated with being an employer, such as the financial burden that could be placed on business if an employee resigns, or more seriously, becomes disabled or dies. For example, occupational hazards that occur in the manufacturing or construction segments are a reality, with many employees ending up incapacitated due to work-related accidents.

Not only does the SMME itself then need to carry the cost of temporary or replacement staff, but the family members of these employees are bound to come knocking on the door of the SMME for financial assistance. These could range from medical costs to disability compensation, death benefits and/or funeral costs. The cost of offering group insurance cover could be significantly lower than the potential burden placed on the employee, their family, and the SMME in these circumstances.

SMMEs employing between 50 and 300 employees should, according to this school of thought, have more sophisticated employee benefits needs. The staff turnover within these SMMEs is lower, due to the increased stability of the SMME and the skills levels of employees. Also, with the lower staff turnover, individual employees become more aware of the need for long-term savings. The business owner will see a higher return on investment when offering a bundled solution which includes insurance and retirement savings as each employee's needs are catered for. The efficiencies of larger groups are also higher, and the SMME may experience more value for money when they offer bundled income replacement solutions.



The Amended National Small business Act of 1996 classifies an SMME according to size or class of business, i.e. number of staff members permanently employed and turnover.

About 68% of all South African workers are employed by small businesses employing fewer than 50 people. According to data produced by the Companies and Intellectual Property Registration Office (CIPRO) and its current replacement, the Companies and Intellectual Property Commission (CIPC), the number of active SMME enitities is estimated at between 600 000 and 675 000.

Although we see a lower staff turnover rate in larger SMMEs, the South African employment landscape has shifted from people staying in one job throughout their entire working life, towards people having a number of jobs during their lifetime. In most cases, people cash in their retirement savings instead of preserving it when they change jobs, even though the need for people to preserve their retirement savings is more prominent than ever before due to the retirement savings gap.

The majority of South African workers are employed by SMMEs, and with the changing employment landscape, the SMME segment offers vast opportunities for transitioning individuals from group to individual insurance solutions. Every time an employee resigns or retires from their employer, the opportunity exists to engage with them for advice on the continuation of their benefits.

The income replacement solution that is offered to the group should therefore provide the opportunity for individual members to meet their long-term needs, despite the probability that they will change jobs a number of times prior to retirement. For example, preserving the client's retirement savings without disinvesting from the market, and offering the client the option to continue insurance cover on an individual basis without underwriting. With this increased need for more complex employee benefit solutions, we see a corresponding increase in the SMMEs' understanding of the need for sound financial advice.

This school of thought bases its philosophy on the number of employees per employer.

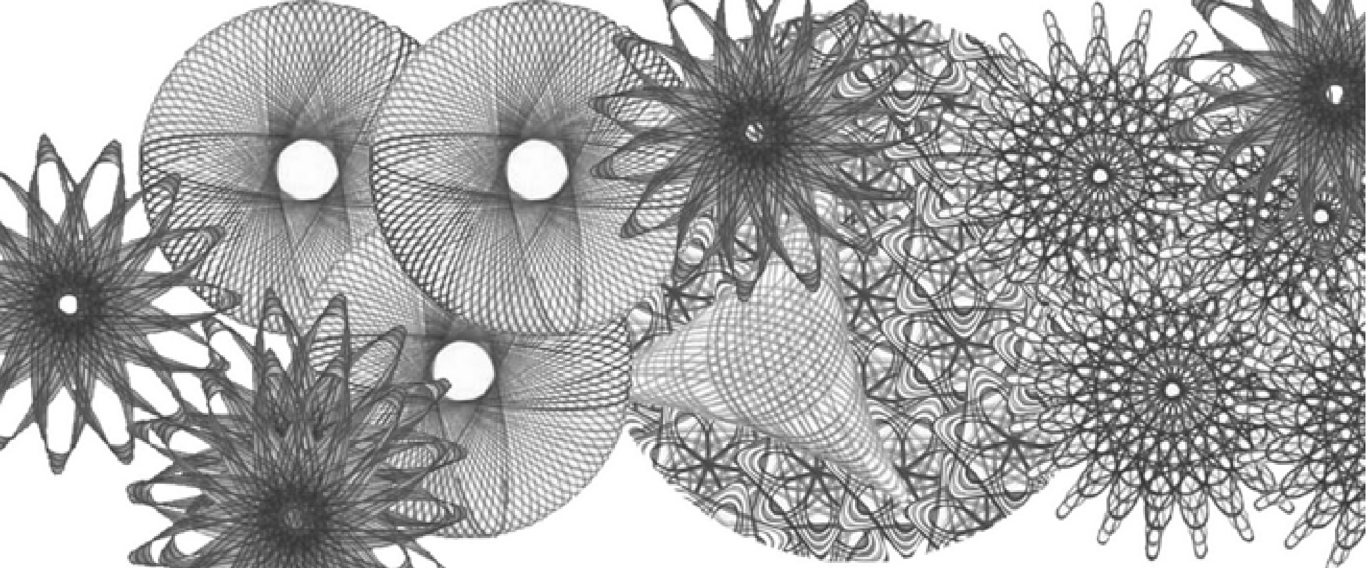
On the other hand, some may argue that the SMME's need for employee benefits should be based on the industry they are in. For example, smaller employers employing less than 50 people in the business services industry could have more sophisticated employee benefits needs, due to the diversity of the group and the potentially higher level of financial sophistication of its employees. Larger SMMEs, such as a construction company employing 200 workers, could have less sophisticated needs due to the larger pool of unskilled workers. This view argues that the type of employee benefits needed could be driven by the industry and level of financial sophistication of the employees, and not simply the number of workers employed by the SMME.

Regardless of the school of thought you support, segmentation is key, as is the need for SMMEs to establish income replacement solutions that provide real access to long-term solutions.

Change your view, grow your business

In South Africa, the SMME sector is a critical role player in closing the retirement and insurance gaps, as the majority of their labour force is financially unwell and depend on their employers for assistance in planning for retirement and covering their insurance needs. Market segmentation within the SMME space should drive the financial adviser's view of their clients and help them to understand the different needs across the various segments.

Together, income replacement providers, financial advisers and employers can assist employees to close their retirement and insurance gap and to improve their overall financial wellness. Understanding the SMME market segments is therefore critical for the growth of your business and the financial wellness of your clients.



Are there patterns to follow?

The changes in our insurance landscape: how to respond.

The landscape is changing

The Greek philosopher Heraclitus, of Ephesus 500 BC, is best known for his doctrine that things are constantly changing and the South African employee benefit insurance landscape today is no exception.

According to Momentum Employee Benefits' claims experience for the period 2009 to 2011, only two declining trends are visible: the number of claims for cardiovascular conditions and the number of HIV / AIDS claimants. With an estimated 5,38 million South Africans living with HIV and about 16,6% of the adult population being HIV positive, based on the 2011 population estimates, HIV / AIDS remains the top cause of disability. However, the duration period of the claims has declined due to better treatment options.

An emerging trend is the increase in higher earning or high profile claimants, especially relating to psychiatric illnesses. During economic down turn an increase in claim notifications is visible. This is due to employees' higher stress levels, following from more companies placing their staff on disability rather than retrenching them. At the same time, we see an increase in the termination of relationships between employers and employees at disability stage which impacts on rehabilitation and reintegration of claimants. This could be due to employers' focus on productivity taking preference over rehabilitation and reintegration. Yet the number of claimants deemed capable of returning to work has increased, indicating that claimants are being actively managed. Lifestyle related diseases such as hypertension, diabetes, obesity and cancer especially in younger people, and Government's push towards tighter implementation measures of health and safety laws in the mining industry, are also causing a hike in disability claims.

Table 1 illustrates the top 5 claims cause for 2011 compared to 2010 and 2009 as recorded by Momentum Employee Benefits. Given these emerging trends it is alarming that an estimated 60% of South Africans, based on UNISA's research, are underinsured for death and disability. ASISA also expressed its concern about the decline in long-term risk policies which provide cover for events such as death, disability, and dread diseases.

	entrants		
Cause	F2011	F2010	F2009
HIV / AIDS	15.6%	13,6%	17,9%
Cancer	12,4%	10,8%	9,8%
Medical	9,8%	10,7%	9,2%
Psychiatry	9,4%	8,5%	6,8%
Spine	9,2%	8,1%	10,0%

Table 1: In FY11, a reduction in HIV/AIDS as a cause of disability compared to FY09 is visible supported by the decrease in the incidence rates for HIV/AIDS over the last few years. However, HIV/AIDS remains the top cause of disability for new entrants. The proportion of cancer and psychiatry claims has increased, while the proportion of claims due to cardiovascular conditions reduced considerably in FY11.

However, the changes in the industry is not exclusive to South Africa. America is also experiencing an increase in lifestyle related diseases, as confirmed by The Johns Hopkins University in the United States, with obesity increasing and the annual medical costs for overweight and obese employees being about $1,500 more than for people with healthy weight. The number of Americans with chronic conditions is expected to grow by 32% to 171 million in 2030.

Midha recorded that during 2007 and 2008, while the Indian pharmaceutical industry grew by 8%, the cardiovascular segment recorded a growth of between 15% and 17%, and the diabetes segment grew by between 10% and 12%. High severity diseases linked to lifestyle, such as diabetes, cardiovascular conditions and diseases of the central nervous system, are on the increase. This is in line with the figures provided by Momentum Employee Benefits, with the exception of cardiovascular conditions.

The changes in the insurance landscape underpin the importance of an holistic response in product design and wellness management to include and embrace all factors impacting on the client's environment.

From disease management to wellness management

To stay ahead of the emerging disability claim trends, an holistic approach to product design is vital for optimal treatment of claimants, as stock standard product features are no longer effective in isolation. The wellness drive that hit the South African health insurance industry a few years back is now a reality in the design of disability products. Wellness and loyalty programmes can no longer be detached from disability products but have to be integrated as a central feature to incentivise employees to adopt a healthy lifestyle. It has to become an important and effective part of employee benefits packages as it is no longer enough for disease management programs to only cover diseases and conditions.

To promote rehabilitation and reintegration, interactive electronic platforms are keyto speed up claims processes and the benefits of technology must be used when interacting with claimants to assist them with administering medication effectively to ensure optimal treatment. Wellness involvement at employer level will ensure directed intervention and will extend beyond traditional loyalty programme interaction.

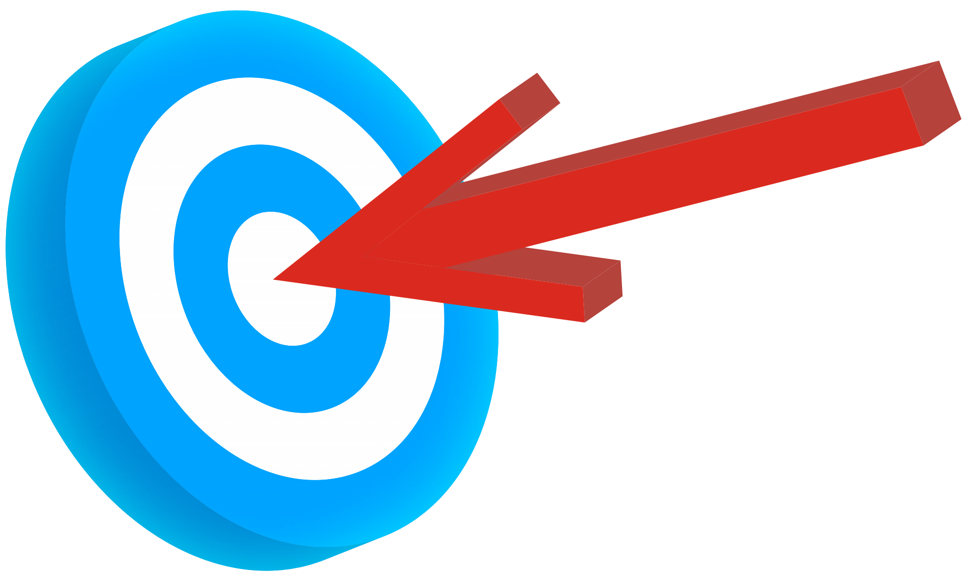
In India employers also have a new focus on productivity and show an increased interest in wellness, according to the 2009 Benefits and Compensation International survey. Worksite wellness programs in the United States have been around since at least the 1980s and some critics are of the opinion that only a minority of existing US wellness programs are designed for success and many have not yet proved that they can modify population health behaviours.

Not only should the industry adapt to the changing landscape by altering our approach to product design and client interaction, but we also have to remain committed to changing our nation's attitude towards wellness and promote financial wellness with our clients to ensure that they are well prepared for life's eventualities.

‘Tis the season to review your scheme’s retirement fund objectives

By Frank Richards

With the average age of members on FundsAtWork being less than 40, a needs analysis of your client’s scheme may indicate that it’s time to review which investment strategy is most appropriate for the members. Frank Richards, from FundsAtWork Investments, provides an overview of Momentum Lifestages to assist your clients with their financial planning.



Momentum Lifestages has been selected by the FundsAtWork trustees as the Trustee Lifestage Strategy because they believe this will improve the expected replacement ratio for the average member, while taking into account that an individual member’s needs change throughout their lifecycle, and more and more new employers joining FundsAtWork select Momentum Lifestages as the advisory body default portfolio for their members.

The trustees of the FundsAtWork Umbrella Pension and Provident Funds regularly review the investment portfolios and product options to ensure that they remain relevant to, and create value for, members at all times. The Treating Customers Fairly roadmap (TCF) places a joint responsibility on product providers and financial advisers to ensure that members are treated fairly through all stages of the product lifecycle and members are provided with benefits that are realistic and suitable to their needs.

Each member is an individual with different needs that change throughout their lifecycle and the new thinking is to question whether the “average member” actually exists. We should then also question the appropriateness of selecting only one default investment portfolio for all the employees of an employer.

While South Africans are not saving enough and less than 6% will retire comfortably, a longer life expectancy will cause many to outlive their savings. FundsAtWork supports the advice process and we assist in the planning for retirement and target a replacement ratio of at least 75%.

Our flexible and integrated features allow individual members, with the guidance of their financial adviser, to meet their personal retirement objectives in multiple ways. This includes increasing contributions, adjusting insurance cover to meet changing needs and opting out of the default investment portfolio should an alternative be more suitable for the individual.

Selecting the right investment portfolio is crucial

We believe that every retirement scheme's ultimate goal should be to provide a framework within which members are offered adequate investment portfolios to enable them to accumulate enough savings for their retirement.

Determining whether members are on track toward achieving this goal is often difficult, but calculating an estimated "replacement ratio" will give them an indication of whether they are heading in the right direction or not. The replacement ratio is reflected as a percentage and is calculated by dividing the expected annual income after retirement by the last annual salary before retirement. This ratio gives an indication of whether the member will be able to buy an income at retirement that will adequately enable them to maintain their standard of living.

It is generally accepted in the industry that targeting a replacement ratio of at least 75% is adequate given that members understand the assumptions made in calculating the outcome. Research shows that if a member targets such a replacement ratio, they will have to:

- Save for an extended period (i.e. in excess of 25 years);
- Contribute at least 15% towards retirement savings (i.e. net of all expenses and insurance premiums);
- Ensure that the assets invested will grow by at least 6% per annum in real terms (i.e. above inflation) over the full period.

The member will have to ensure that he achieves all points simultaneously. Compromising on one will require an upward adjustment on the others. For example, if the member is unable to save for more than 25 years, he will have to increase his contribution rate or achieve a higher investment return in an attempt to reach the same retirement goal.

Recent industry research shows that the average net contribution rate is less than 15% and members often do not preserve their retirement fund benefits when they change jobs, which results in them not investing for extended periods. This will decrease the probability of achieving their retirement objectives, which will make it even more critical to ensure that the correct investment portfolios are made available to members.

Achieving investment returns of 6% above inflation is challenging

If members prefer to invest in more conservative portfolios as they get closer to retirement, they will have to target an even higher real return while they are young to target a return of 6% per annum over the period they save towards retirement.

Targeting investment returns in excess of inflation +6% per annum is an aggressive objective and many investment professionals suggest that members will only achieve this level of return if they invest a large portion in growth asset classes, such as equities and property. FundsAtWork shares this opinion. Modelling shows that an aggressively constructed portfolio, with approximately 75% in equities, 20% in bonds and 5% in cash, has a 17.5% probability of giving an annual negative return over any one year. This means that if members invest in such a portfolio, they should expect an annual negative return once every five to six years.

The global trend is that people retire earlier and live longer. Longevity is one of the biggest risks and many retirees will outlive their pension provisions. Members underestimate the impact of inflation on the cost of living as well as the risk of longevity, and they should therefore aim for an estimated replacement ratio in excess of 75%.

FundsAtWork has constructed a range of diversified market linked portfolios to assist members in achieving their retirement objectives.

These portfolios have different real return objectives and have been constructed with a high probability of achieving these objectives over the long-term in a normal market cycle (i.e. where growth assets outperform both inflation and conservative asset classes).

These portfolios are risk-profiled and form part of a lifestage approach, which allows younger members to invest in aggressive portfolios. As members get closer to retirement, they will automatically move to portfolios that are more conservative. FundsAtWork believes that this approach is the most effective way in which to save towards retirement over the long-term. It also allows members to invest in portfolios that target relatively high real returns in an attempt to boost retirement fund savings over the long-term.

"Diversification is the only free lunch."

Warren Buffet

The portfolios used in a lifestage strategy should be carefully constructed and well diversified across:

- A number of investment managers (i.e. a multi-manager approach);
- Asset classes (i.e. "traditional" like equities and "new generation" like hedge funds);
- Regions (i.e. local and offshore);
- Various styles (i.e. value, growth and momentum); and
- Strategies (i.e. tactically allocating asset class exposure to where relative outperformance is expected).

Momentum Lifestages portfolios are diversified and likely to provide competitive returns over most market cycles. FundsAtWork believes that investing in these portfolios will result in an improvement in expected replacement ratios in a normal market cycle over the long-term.

The conservative risk

Research shows that members often prefer to invest in portfolios that are conservatively constructed, especially in times of uncertainty. These portfolios provide smooth returns over time but **members do not realise that they are actually taking on huge risk by investing too conservatively.**

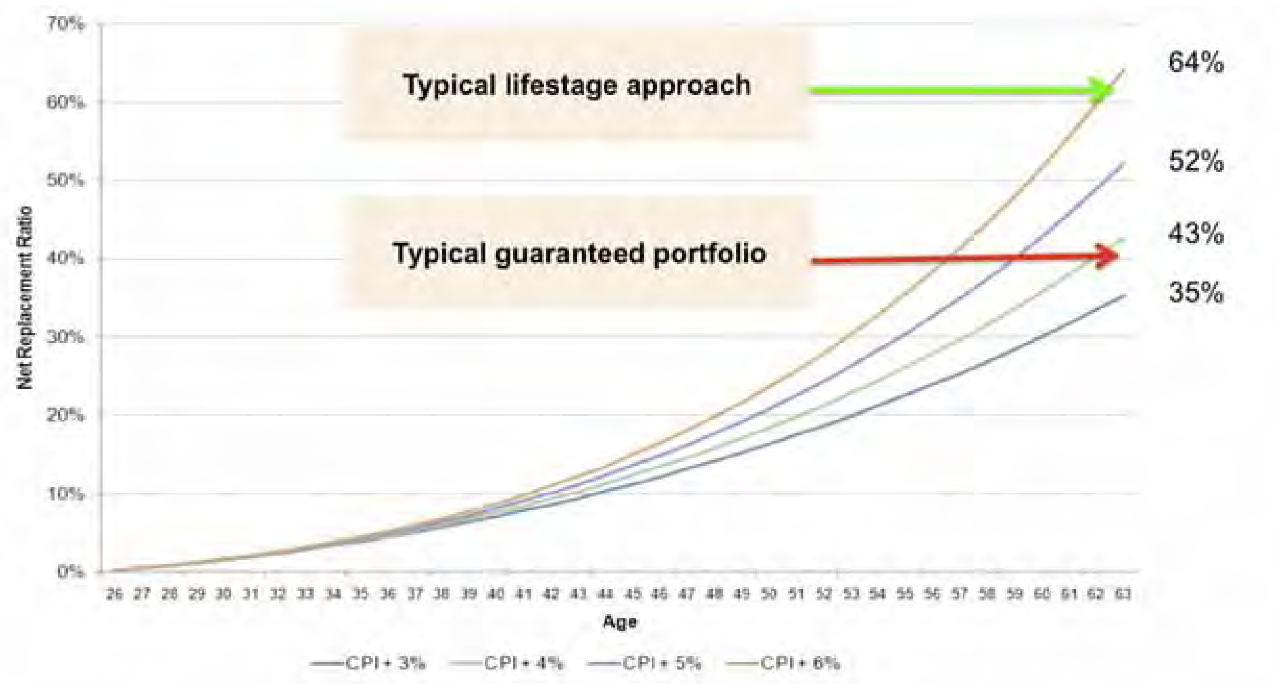
FundsAtWork believes that conservative portfolios will not generate the required returns over the long term. **These types of conservative portfolios are often selected as default portfolios and investors do not realise that there is a risk in investing in portfolios that are not likely to generate the required outcome over the long term.** These portfolios include:

- Money market or fixed interest type portfolio;
- Guaranteed portfolios;
- Conservative Absolute Return type portfolios; and
- Conservative Market Linked portfolios.

Adopting an appropriate investment strategy therefore becomes crucial to enable members to accumulate sufficient assets over time.

The impact on expected replacement ratios

The graph below shows the expected replacement ratios for an investor who contributes 12% per annum and who invests in portfolios that target different real returns over 35 years. A portfolio that targets inflation +3% per annum is expected to give a replacement ratio in the region of 35%, which is exceptionally low. Most conservative and guaranteed portfolios target real returns between 3% and 4%. A portfolio that targets inflation +6% per annum is expected to give a replacement ratio in the region of 64%, which is closer to what investors should be targeting.



Someone that invests for 35 years and who contributes 12% Net

Momentum Lifestages

Momentum Lifestages portfolios and underlying asset class building blocks are shown in the table below. The most aggressive portfolio (Momentum Accumulator) invests in the Momentum Enhanced Factor 7 building block and the most conservative portfolio (Momentum Defender) in the Momentum Enhanced Factor 3 building block. The table also shows the real return targets of the different building blocks. These portfolios have different real return objectives over different periods, which vary from CPI +7% over a 7-year rolling period to CPI +3% over a 3-year rolling period.

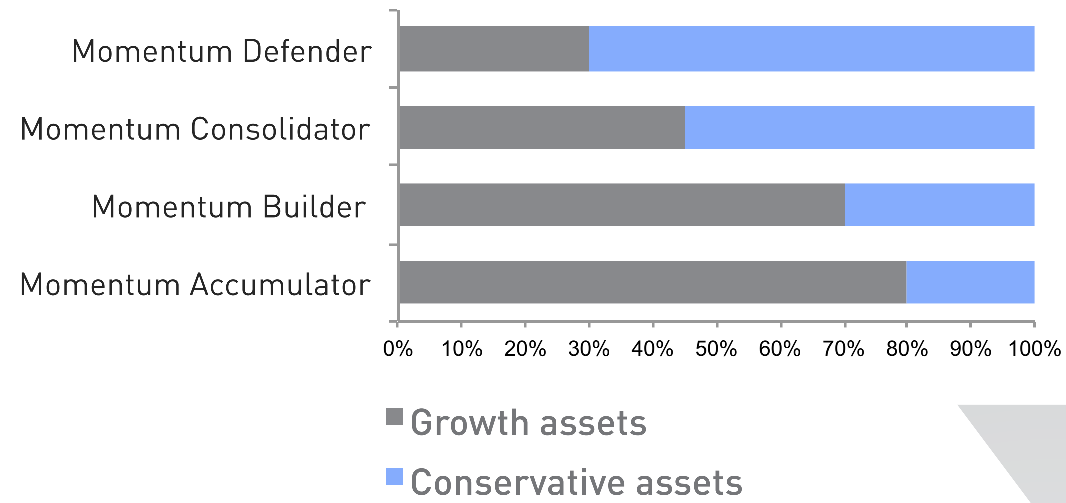
Portfolio	Underlying building block and targeted return
Momentum Accumulator	Momentum Enhanced Factor 7 (Targets CPI +7% over 7-year rolling periods)
Momentum Builder	Momentum Enhanced Factor 6 (Targets CPI +6% over 6-year rolling periods)
Momentum Consolidator	Momentum Enhanced Factor 5 (Targets CPI +5% over 5-year rolling periods)
Momentum Defender	Momentum Enhanced Factor 3 (Targets CPI +3% over 3-year rolling periods)

The aggressiveness of the portfolios is determined by the exposure to real asset classes or growth asset classes. The higher the CPI+ targeted return, the more aggressive the portfolio. Growth asset classes are expected to provide returns in excess of inflation over the long term, and typically include listed local and offshore equities and listed local properties. These asset classes are volatile and portfolios that maintain high exposures to these assets are expected to have a higher volatility compared to portfolios with high exposures to more conservative asset classes, such as bonds, inflation linked bonds and cash.

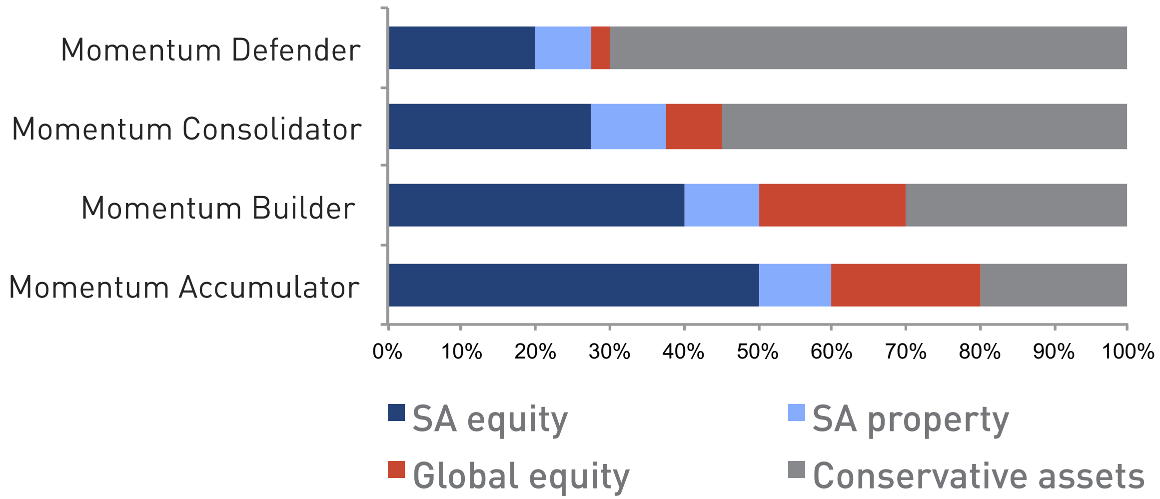
Members targeting higher returns will have to invest in more aggressive portfolios, which will hopefully deliver higher returns over the long term in return for taking on additional risk. However, there are no guarantees that these aggressive portfolios will outperform the more conservative portfolios over all periods and they could deliver negative returns for extended periods if, for example, equity markets decline.

Guaranteed portfolios or portfolios that provide stable returns are often conservative in nature and target lower real returns, resulting in members not being able to save enough for a financially independent retirement. The table below shows the strategic asset class exposures of Momentum Lifestages. The more aggressive portfolios maintain a higher strategic exposure to growth asset classes compared to the more conservative portfolios.

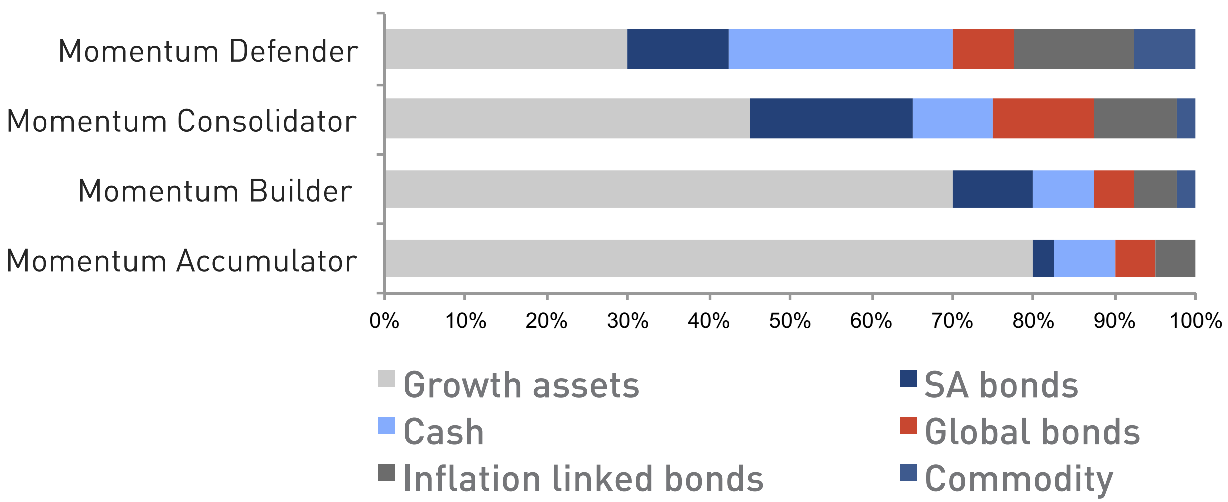
Strategic asset class exposure



Growth assets



Conservative assets



The underlying manager exposures are actively managed and if any of these managers do not deliver the expected returns, they will be replaced with a more suitable manager.

Local equities	Global equities	Local bonds	Global bonds	Inflation linked bonds	Listed property	Local cash
Allan Gray, Coronation, Prudential, Foord, Re: CM and Investec	Blackrock and SEI	Coronation and Future-growth	Blackrock	Momentum Asset Management	Catalyst	Cadiz and PSG

The portfolios comply with Regulation 28 and represent our best thinking in terms of portfolio construction.

The table below shows the returns of Momentum Lifestages relative to their respective benchmarks over various periods to the end of September 2012.

Portfolio	1 year	3 years	5 years
Momentum Accumulator	22.09%	15.22%	9.21%
Benchmark	23.74%	15.48%	8.83%
Momentum Builder	20.16%	14.31%	9.55%
Benchmark	22.43%	14.38%	9.14%
Momentum Consolidator	16.41%	-	-
Benchmark	19.63%	-	-
Momentum Defender	13.21%	10.20%	8.62%
Benchmark	15.95%	10.82%	11.87%

Inception date: *Momentum Lifestages Consolidator June 2010 (3 and 5 year returns not available)*

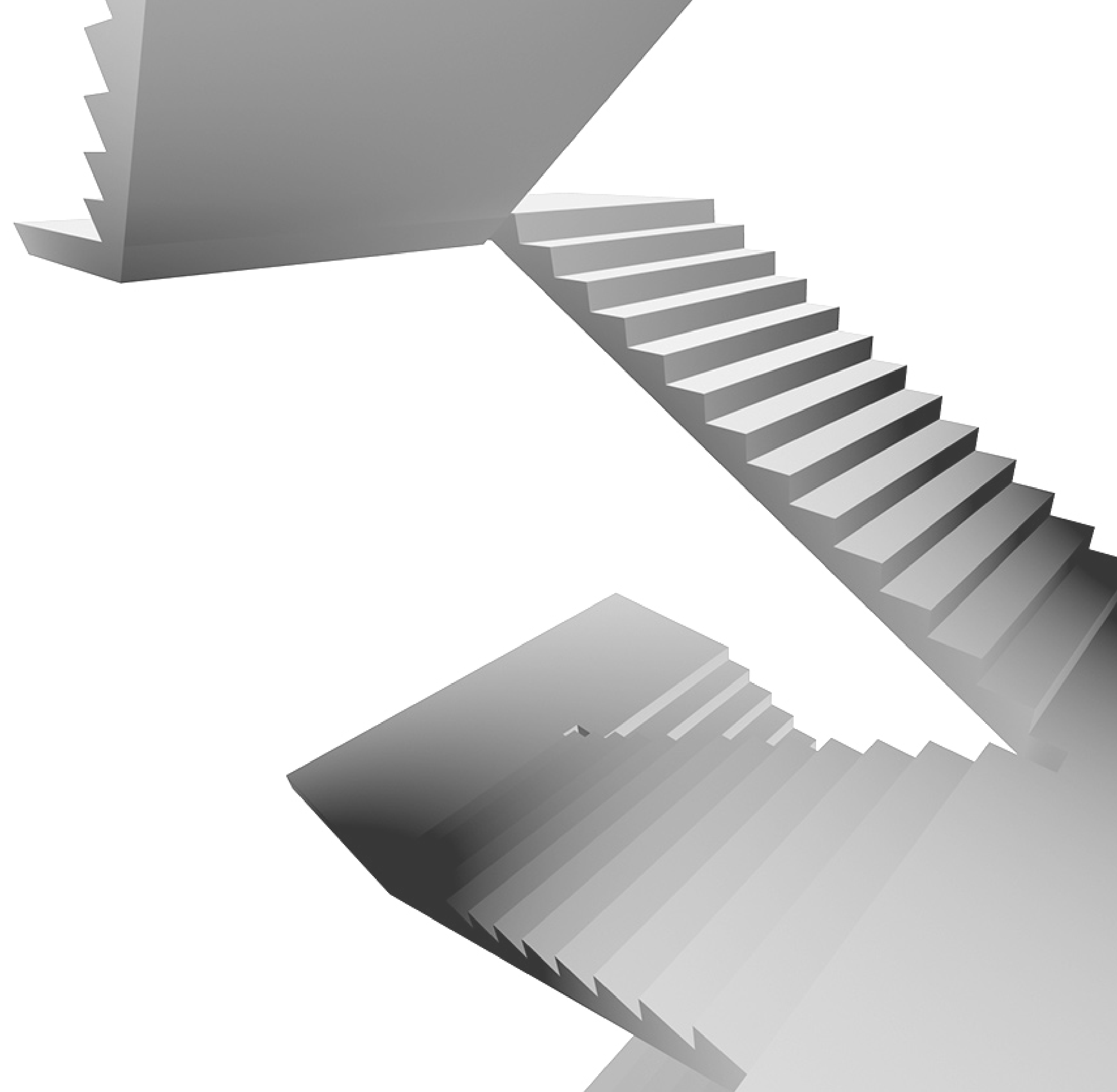
Once a range of appropriate lifestage portfolios have been selected the next step is to agree on a suitable glide path. This is the process whereby members are automatically moved from aggressive to conservative portfolios as they get closer to retirement. We use the member's term to retirement as a proxy for risk.

The table below shows the glide path for Momentum Lifestages. Members start moving to more conservative portfolios seven years before normal retirement age.

Portfolio	Glide path
Momentum Accumulator	More than 7 years to normal retirement age
Momentum Builder	Between 5 and 7 years to normal retirement age
Momentum Consolidator	Between 3 and 5 years to normal retirement age
Momentum Defender	Less than 3 years to normal retirement age

The underlying portfolio building blocks have performed relatively well and could be used by members in an attempt to maximise their retirement benefits over time. Although it is impossible to predict how the different portfolios will behave in the same market conditions (net of fees), we do believe that Momentum Lifestages portfolios are more suitable over the long term.

Momentum Lifestages portfolios are available on **FundsAtWork's Narrator, Provider and Entrepreneur** product options. For more information on any of these portfolios, please contact your marketing adviser or portfolio head or download the fund fact sheets from www.momentum.co.za.



It's a win-win solution:

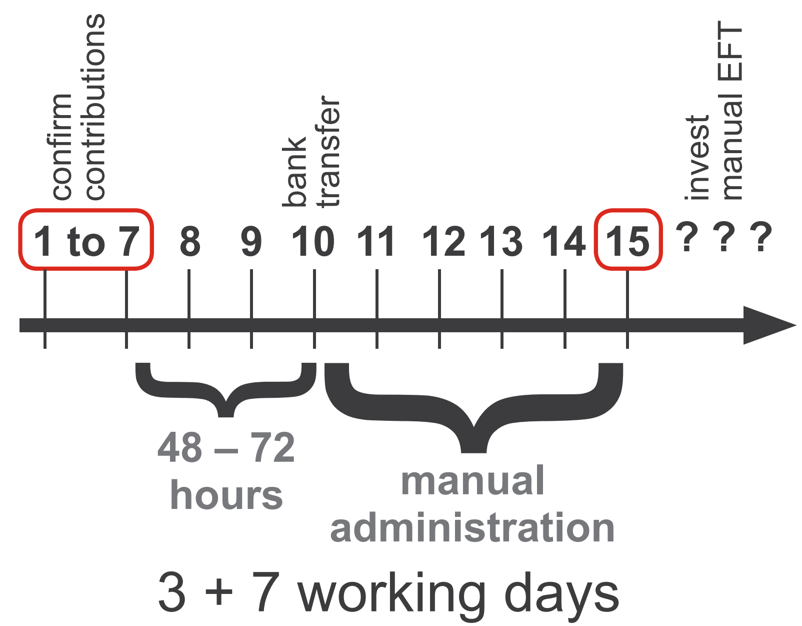
Momentum's FundsAtWork employer portal

FundsAtWork is all about taking you and your clients through an awesome service experience. The efficiencies created by our employer portal pre-funding facility has enabled FundsAtWork to enhance members' retirement savings by almost R1,6 million in additional investment returns and has assisted them to meet their retirement savings goals. Here's how...

Doing business with us is simpler and we continually revisit our FundsAtWork processes to make sure we keep it this way. Providing an employee benefits solution should be a seamless process for employers and should not cause additional burdens or interruptions to business efficiencies. Systems should be accessible at all times, transactions should be fully integrated and automated and they should provide real time information. The employer portal offers all of this to our clients – which is why more employers are opting to change to employer portal.

Monthly contribution reconciliations

The processing of monthly reconciliations on employer portal ensures that the employer retains complete control over the amounts paid, as well as the timing of payments. Retirement fund contributions are invested as soon as the employer has confirmed the amounts, or on the agreed transfer date if the confirmation is done in advance. In confirming the amounts due, the employer authorises the collection of the contributions from their bank account. FundsAtWork pre-funds and invests the contributions before we receive the money in our account. This means that members are able to earn additional investment returns from the date that the contributions are confirmed and they will see the contributions reflecting sooner on their online benefit statements. This gives both the members and the employers peace of mind that the contributions have been allocated and invested in good time and it alleviates queries from members about the length of time it could otherwise take for their contributions to reflect on their benefit statements.



The process is lengthened considerably for employers who are not on employer portal. FundsAtWork waits to receive the employers' updated membership data schedules and for the payments to reflect in our account before we are able to process the reconciliations. We issue the investment instruction only once the entire process is complete. This can delay the investment process by more than a week, which ultimately prejudices the members.

Claim payments

The insurance industry, like many other industries in the financial services sector, is experiencing an increase in fraudulent activities. Syndicates have access to sophisticated technology to produce counterfeit documentation to facilitate the processing of fraudulent transactions.

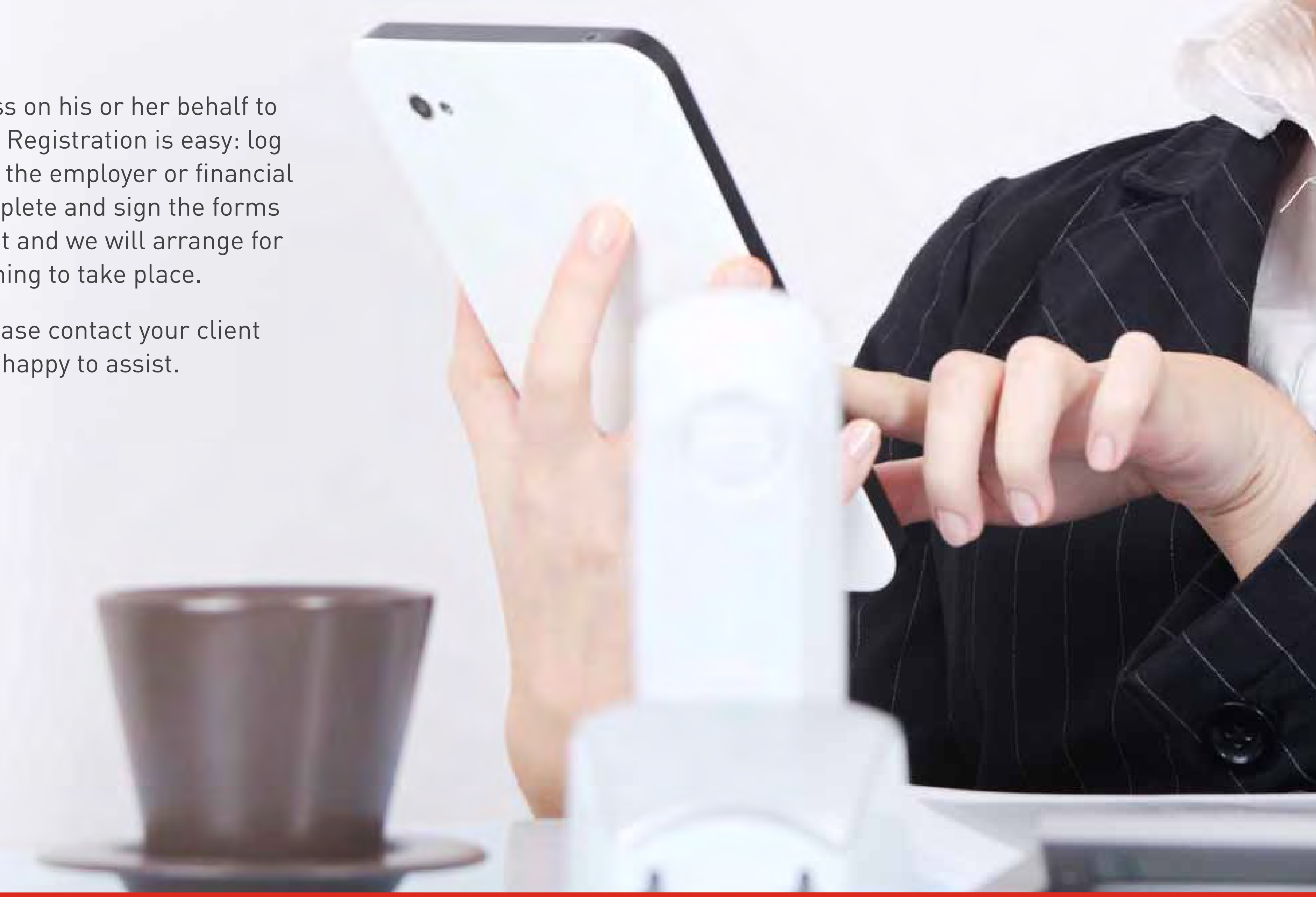
Processing withdrawal claims on the employer portal allows the employer to confirm the exiting member's banking details and submit claims online. The claims processing starts immediately and follows a fully automated route until finalisation of payment. There is no opportunity for manual intervention which can result in fraudulent activity.

Employers can submit claims at any time during the month and FundsAtWork will pre-fund the last contribution payable by the member. This is so that the final benefit amount can be calculated and tax clearance can be obtained ahead of the member's last working day. The payment will then reflect in the member's account on the first day of the month following his or her exit from the employer. The best part is the business efficiencies created for the employer because there is no need to spend unnecessary time and resources following up on ex-employees' benefit payments.

Accessing the employer portal

The employer may grant financial advisers access on his or her behalf to perform all transactions on the employer portal. Registration is easy: log on to www.momentum.co.za to find forms under the employer or financial advisor options. Simply ask the employer to complete and sign the forms and return these to your client service consultant and we will arrange for the access to be granted and for one on one training to take place.

For more information on the employer portal please contact your client service consultant or portfolio head, who will be happy to assist.



Unpacking the Protection of Personal Information Bill

Prabashani Naidoo

While there's much-needed public pressure and controversy around the Protection of State Information Bill, it seems the passing of the Protection of Personal Information Bill (POPI) will bring South Africa in line with international data protection laws. But this will have far-reaching implications for employee benefits and financial advisers.

South Africans will soon have a constitutional right to the privacy of their personal information processed by public and private organisations. It all sounds great in theory, but being the information age, every organisation stores information about their employees, shareholders, suppliers and clients.

The Bill's aim is to regulate how personal information is processed and to resolve cases where personal information is not handled accordingly. "Personal information" is information relating to an identifiable, living, natural person and, in some cases, a juristic person (e.g. a company). The Bill identifies the "data subject" as the person to whom the personal information relates. The "operator" means a person who processes information for a responsible party in terms of a contract or mandate, without coming under the direct authority of that party.

POPI will clearly have impact on employee benefits and the financial adviser, who is either appointed by the employer or by the member. This means the financial adviser will process personal information either as an operator and/or as a responsible party. Each financial adviser will have to put measures in place to ensure that they fall in line with POPI. That said, the employer will not be relieved of its responsibility under POPI if it appoints the financial adviser as an operator.

Momentum Employee Benefits (MEB) will be an operator, and in its capacity as benefit administrator, it may process personal information on behalf of the fund it administers. A financial adviser may also act as an operator on behalf of an employer in processing personal information of employees. "Processing" means any operations concerning personal information, including the collection, receipt, recording, organisation, collation, storage, updating, modification, retrieval, alteration, consultation, use, dissemination by means of transmission, distribution or making available in any other form, merging, linking, as well as blocking, degradation, erasure or destruction of information.

"Responsible party" means a public or private body or any other person which, alone or in conjunction with others, determines the purpose of and means for processing personal information. In practice, a responsible party will include MEB because it processes personal information in respect of the employer, the employees/members and the financial adviser. It also includes a financial adviser who processes members' personal information.

Whenever a responsible party or operator processes personal information it must first obtain the data subject's consent and disclose the purpose of the collection. This does not mean that the financial adviser, if it is an operator for the employer, needs to get consent from each member before the information can be processed. The financial adviser is appointed by the employer as an adviser to the scheme and any personal information relating to the employees is provided by the employer.

The employer in turn is a responsible party who must ensure that all members are aware that their personal information is being made available to a third party. This is normally covered in the employment contract between the employer and the employee where it may be compulsory for the employee to join certain employer arrangements, for example a retirement fund or medical aid scheme.

On the other hand, the financial adviser's staff must ensure compliance with POPI by securely storing personal information when it is not being used, positioning computer screens so that personal information is not accidentally disclosed, ensuring that visitors are accompanied in areas normally restricted to staff and encrypting personal information that may be taken out of the office in case it is lost or stolen.

Records must be destroyed, deleted or "de-identified" after their retention is no longer authorised in terms of POPI. This must be done in a manner which prevents the reconstruction of the personal information. Records may be kept longer for historical, statistical or research purposes and appropriate safeguards must be implemented against the use of the records for any other purposes, provided the consent of the data subject is obtained.

This article is based on the current version and it must be kept in mind that the final enacted version of POPI will probably differ somewhat from this short overview.

From an employee benefits perspective, personal information of a member includes:

- name, surname, identity number and marital status;
- address, contact details and bank details;
- medical records (for underwriting, disability claims, medical reports and decisions);
- member records; and
- copies of any correspondence between the member and any operator/responsible party.

Momentum's compliance with POPI

Momentum's high value for trusted relationships with financial advisers and end-user clients means establishing appropriate policies and procedures to protect the various forms of data that are part of business operations. Changes with regard to the disclosure of personal information to financial advisers and third parties will not only ensure compliance by MEB but also that employers and advisers alike will not be exposed to unnecessary claims of violating a data subject's right to privacy.

- Momentum will not accept an instruction from a financial adviser's personal assistant to change any of the financial adviser's website access pin codes.
- Momentum will only disclose scheme information to the employer and financial adviser appointed to the scheme by the employer.
- Medical underwriting information will only be made available to the member and/or the financial adviser authorised to receive such information on behalf of the member.

Please contact your marketing adviser or portfolio head should you have any questions or require additional information on POPI.

Make your mark

on South Africa's financial wellness

The National Treasury has published documents on incentivising both retirement and non-retirement savings. If you want to make a difference to the future of our country's financial wellness through informed discussion and proactive feedback, read on and have your say!

The topics include compulsory preservation, providing better annuity vehicles at retirement, improving tax incentives for retirement savings and incentivising non-retirement savings.

Preservation, portability and governance

It's a well-known fact that South Africans are not saving enough for retirement. Government presents five proposals to encourage the preservation of retirement savings before and after retirement.

1	Default preservation option	• All retirement funds should make provision for withdrawal benefits to be preserved, unless members specify that they wish to withdraw their benefits in cash or transfer the benefit to another fund. • If members elect to withdraw their benefits, they must first seek financial advice.
2	Maintain the current position	• To allow full access to the withdrawal benefit. • Tax on withdrawal at a higher rate than is currently levied in order to discourage a member from withdrawing.
3	Preservation of two-thirds after implementation date of the preservation legislation ("legislation date")	• Access to a maximum of one-third of accumulated savings before retirement, which will be taxable. This applies to the savings accumulated after the legislation date. The remaining two-thirds must then be preserved. • Any accumulated savings as at the legislation date can be withdrawn in full.
4	Maximum monthly income	• Access to a monthly income while a member is unemployed, limited to the lesser of R5000 or 3% of the monthly accumulated balance.
5	Full preservation	• Full preservation of new contributions and growth after the legislation date.

Future of provident funds

Government wants to align provident funds to pension funds and retirement annuity funds. They have proposed that, following the harmonisation of the tax treatment of contributions to retirement funds, no new provident funds be allowed.

Governance

It is Government's view that PF Circular 130 and the Trustee Toolkit (FSB's online education programme) should become legally enforceable governance and training instruments.

Cash withdrawals before transferring to a preservation fund

SARS retirement fund practice note RF1 / 2012 that came into effect on 1 November 2012 confirms that a member may take a cash withdrawal from his or her pension/provident fund before transferring to a preservation fund. The member will then also have another once-off withdrawal opportunity from the preservation fund.

Previously, the member's entire benefit had to be transferred to the preservation fund and he or she would then get a once-off withdrawal from the preservation fund. This did not encourage members to preserve their benefits, especially those members whose only means of support was their retirement savings.

The new dispensation encourages members to preserve at least a portion of their benefit while also allowing them to take a portion in cash.

Improving tax incentives for retirement funds

Currently there are different tax dispensations for pension, provident and retirement annuity funds. This tax regime is complex and is open to abuse. The proposals made by Government have been summarised in the table below.

Taxation of contribution (all retirement funds)	Deduction
Employer	
• Contribution taxed as a fringe benefit in the employee's hands at the marginal tax rate	Unlimited deduction for employer
Employee	
• Contribution included in the gross income of the employee • Based on the higher of employment or taxable income (still to be determined) • Any annual non-deductible contributions can be carried forward to future years • Any non-deductible contributions at retirement will keep its tax exempt status	< 45: 22.5%, maximum R250 000 ≥ 45: 27.5%, maximum R300 000 Minimum of R20 000

- The caps of R250 000 (< 45 years) and R300 000 (45 years and older) will only affect an employee who contributes the maximum and earns more than R1 111 111 or R1 090 090 per annum respectively.
- Maximum caps include the costs of the approved risk benefits and administration.
- Minimum monetary threshold of R20 000 for all low-income earners to allow them to contribute more than the percentage caps to their retirement funds.
- Non-deductible contributions will be tax exempt at retirement. It will be aggregated first to the lump sum and then to the annuity income.
- Rollover dispensation to allow flexibility for those with fluctuating incomes.

Enabling a better income in retirement

Currently members choose retirement products without much advice and most end up choosing inappropriate products. This paper focuses on annuities (living and conventional life annuities) and proposes some options for reform.

- Government wants to introduce the retirement income trust (RIT) which could be modelled on the same legal structure as collective investment schemes.
- Existing living annuities will be made more consistent with the proposed RIT accounts.
- The trustees of retirement funds will have to choose a single default retirement product for all their members.
- Members may opt out of the default retirement product subject to seeking advice.
- The other product must be a conventional life annuity or meet the requirements for selection as a default product.
- Two-thirds of the retirement savings must be put into the default portfolio subject to certain thresholds.
- Government is looking at increasing the R75 000 minimum limit to R150 000.
- Upper threshold limit of R1.5 million to ensure that there is longevity protection; over this amount, the member can elect a phased withdrawal policy.
- Members will still be able to withdraw one-third of their retirement savings in cash.

Incentivising non-retirement savings

This paper deals with potential tax incentive options to encourage discretionary non-retirement savings with a focus on the low to moderate income earners.

	Product/ structure	Purpose	Contributions (after tax)	Earnings	Withdrawals
Interest bearing accounts	Savings account, low denomination top-up retail bonds, money market funds	Multi-purpose saving	Capped at R30 000 per annum and R500 000 for life	Tax free	Tax free
Equity accounts	Equity, property assets				

- Contributions will be made from after tax income and will be capped.
- Earnings and capital growth held in this vehicle will be exempt from income tax.
- There will be no rollover of any of the unused portion of the allowance at the end of the tax year.
- Allow for a transition period of two years to accommodate taxpayers who are 45 years and older to either transfer or invest in the new savings account. Individuals aged 45 to 49 can invest a quarter of their lifetime limit, those aged 50 to 59 can invest half of their lifetime limit, those aged 60 to 65 can invest three quarters, and those 65 and older can invest the full lifetime limit.
- The current interest income tax exemption thresholds will be phased out during the transition period.
- An investor will be able to withdraw their savings at any time but to discourage casual withdrawals and to encourage long-term savings, withdrawn funds cannot be replaced.
- Savings accounts must fulfil certain criteria and must be registered with SARS in order to gain tax benefits. Providers will be required to report to SARS.

The most important proposals are summarised in this article. For more details, you can access the discussion documents on www.treasury.gov.za.

PIN BOARD

Preservation funds are changing...

Can members quit from an umbrella fund? Are you sure?

What does advisory body contact details have to do with member education?

Become a disability product expert, one pin-up note at a time.

FundsAtWork's housing guarantee deserves more limelight. Why?

How to make FundsAtWork's Family Protector simpler for clients.

Meet the team!

PIN BOARD

Check your facts: Preservation funds

The definition of pension preservation fund has been updated by RF 1 / 2012 effective 1 November 2012. Legal Update 8 / 2012, which can be accessed on the second page of this newsletter, gives you a quick guide on how a preservation fund works, and for those who enjoy a more in-depth read, the quick guide is followed by a detailed discussion.

Questions such as "is employer participation still a requirement and are employees allowed to choose their own preservation funds when they leave employment" and "who can become a member of a preservation fund" are discussed. The update also deals with transfers to, from and between preservation funds.

Please direct your queries to Prabashani Naidoo, Legal Specialist: Research Momentum Employee Benefits – FundsAtWork at prabashani.naidoo@momentum.co.za.

Keep exploring! More around the corner

T&Cs

for Umbrella Pension or Provident Fund eligibility

Momentum occasionally receives requests to allow an existing member of the FundsAtWork Umbrella Pension or Provident Fund to terminate their membership while still employed. These applications for termination of membership cannot be allowed as they will lead to a transgression of Income Tax legislation. If the employer accommodates such a request, this may result in the tax approval of the scheme being revoked. It may also lead to a claim against the employer. This includes a claim by a dependant of a member who met the membership qualifications but was either not admitted as a member or whose membership of the scheme was terminated without the member terminating their employment.

As a reminder, membership of a scheme that has been approved by SARS is compulsory for all qualifying employees starting employment with the employer after the scheme has started. The employer must ensure that membership is a condition of employment for all new employees meeting the eligibility criteria, and has to make certain that continued membership throughout the member's employment is enforced.

An employer can also be held liable if they do not notify FundsAtWork of new employees who qualify for membership and do not pay the contributions to the fund. If a claim arises, the amount the employer could be liable for would be equal to the benefit that would have been paid had the member joined the scheme.

If you would like more information please see Legal Updates 14/2009 and 5/2010.

Opening communication channels: Contact details of advisory body

Each scheme has to have an advisory body consisting of at least two members, one appointed by the employer and one elected by the members. The advisory body is required to provide information and make recommendations to the trustees, taking the members' interests into account. They must also avoid conflicts of interest and act with suitable care, diligence, good faith and impartiality.

Over the past few years, FundsAtWork and the trustees have intensified their efforts to communicate and educate the members. The various pieces of communication are normally sent to the employer with a request to distribute them to their employees. In reality, there is still a substantial number of employers that do not understand the importance of educating the members on their benefits and who therefore ignore our request.

To overcome this, the trustees have asked us to obtain the contact details of the advisory body members on all schemes from the beginning of 2013. We will then engage with the advisory body to assist with the distribution of member communication as and when required.

Family Protector

NB!

We are often asked for more information on the Family Protector benefits. To assist you and your clients in understanding this benefit we have included a short summary of Family Protector as a link on the third page of this newsletter.

BACK TO MAIN PINS

Disability Q&A: Improving your ability with disability claims

While others may prefer being ostriches in the sand when it comes to the unthinkable, Momentum opts for a pro-active disability claims management approach. The sooner we are aware of a claim, the sooner we can get involved with case management and possible rehabilitation. We can assist the employer in managing the incapacity in the workplace in terms of length of time and how to accommodate the disabled member.

What is the *date of disability*?

The date of disability is a contractual date that is determined by Momentum and confirmed by medical evidence. It is the last date the member was able to perform the duties of his or her job actively and productively.

What does *actively at work* mean?

Actively at work means a member is:

- physically at work;
- performing their own job; and
- able to meet the inherent requirements of their job productively.

When does Momentum need to be notified of a potential claim?

If a member, as a result of a medical condition or injury:

- is off work for more than 10 consecutive days;
- requires accommodation in the workplace (i.e. their job duties have to be adjusted); or
- is unable to meet 75% and more of their job duties productively.

The policy states that we require notification of a claim within three months from the last day the member is actively at work. However, it is preferable if the employer follows the three bullet points above. The notification does not have to declare that the member is disabled, only that there is a potential claim. As a guide we usually advise the employer to submit notification in the form of an email and if possible a sick note.

If the member returns to work within the waiting period, we will simply close the case. If they do not return to work, the employer must ensure that the rest of the claim forms are completed for assessment of the claim. The employer should not wait for the doctor to declare the member unfit to work before notifying us.

READ

Our house in the middle of the street: **Maximum housing loans and fees**

FundsAtWork offers housing guarantees for members who need to renovate their home, buy a house, buy land to build a house or pay off another housing loan debt, as long as their employer consents. The loans are provided by Standard Bank or First National Bank.

The trustees of the FundsAtWork Umbrella Pension and Provident Funds have changed the maximum housing loan amounts, as well as the fee that FundsAtWork charges to administer the surety guarantee provided by the fund.

What is the maximum housing loan amount?

There are two limits:

1. The maximum amount of surety the fund will provide is based on the member's withdrawal benefit.

- On the FundsAtWork Umbrella Provident Fund: 64% of the member's withdrawal benefit at the time of applying for the housing loan.
- On the FundsAtWork Umbrella Pension Fund: 64% of one third of the member's withdrawal benefit at the time of applying for the housing loan.

The benefit statement will show the exact maximum amount.

2. The amount that the member can afford to pay every month. This can be up to 25% of monthly salary or wages after deductions. The bank will check whether a member can afford to take out the loan or not.

What fee does FundsAtWork charge members who have housing loans?

The fee is R17 per month and does not include the bank's normal monthly administration fees. Please refer to the Quote in Detail booklet for more information on the housing loan guarantee facility.

FundsAtWork management team

Regard Budler
Head of FundsAtWork

Overall responsibility for the product, product development and pricing.

Meet the team of dedicated and committed staff that make up the executive management team for the FundsAtWork product.

The FundsAtWork management team works in an integrated matrix model which allows our client focused business representatives to each bring a unique dynamic to all projects and strategies thereby ensuring customized delivery of our products and services to our clients, including you the financial adviser, the employers, our members and the trustees.

Brigitte Fraser
Head of Broker Management

Responsible for all financial adviser interactions, as well as delivery of product and new business sales support to financial advisers and our various distribution channels.

Hilda Martins
Head of Client Services

Responsible for delivery of all operational and administrative processes and services.

Sanelisiwe Ngcobo
Head of Marketing and Communication

Responsible for delivery of marketing and communication tools and support.

Hettie Joubert
Head of Trustee Management

Responsible for all interactions with and on behalf of the Trustees of the FundsAtWork Umbrella Pension and Provident funds, as well as legal advice on industry, policy and legislative requirements.

Francois de Ravel
Head of Employee Benefit Sales

Momentum Distribution Services
Responsible for delivery of FundsAtWork sales for MDS, on behalf of Momentum Sales.

Frank Richard
Head of Investments for FundsAtWork

Responsible for the FundsAtWork asset consulting strategy and overseeing all investment related products, processes and procedures.