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- ALAN McCULLOCH

of those assets."

Tjie denies the GEPF is shopping around.

Yet, for all the noise out there, the GEPF is doing good things from an investment perspective. It managed to amortise a funding shortfall successfully, bringing its funding level up from 72,3% at inception in March 1996 to 96,5% in March 2004. It is now fully funded. It is also a signatory to the UN principles of responsible investment. Its investment offerings are more numerous and creative than most retirement funds. It has grown its investment income by 85% since inception.

The fund should also be able to sustain its liabilities. One would think the HIV/Aids pandemic would pose a looming deficit disaster for a fund such as the GEPF but, interestingly, its experience has been better than expected. The fund experiences a sort of "age relief" for meeting its retirement liabilities to members stricken with HIV/Aids. This is the case with mostly younger members of the fund, averaging 35 years old, who have not had much service with their employer. Their death benefits are often much lower than a retirement benefit would be. The risk to the employer is therefore minimal and the fund is in a fairly healthy position.

In the defined-contribution (DC) environment, however, it is becoming apparent that the impact of Aids on retirement funds erodes benefits. But Alan McCulloch, chairman of the board of trustees of the Corporate Selection Umbrella Fund says: "We are finding it is not the total apocalypse we once thought. It seems to be peaking and is now becoming a measurable, insurable risk."

SA Retirement Annuity Fund

One would think previous pension funds adjudicator Vuyani Ngalwana's censure of sharp practice by the life companies regarding retirement annuities (RAs) would

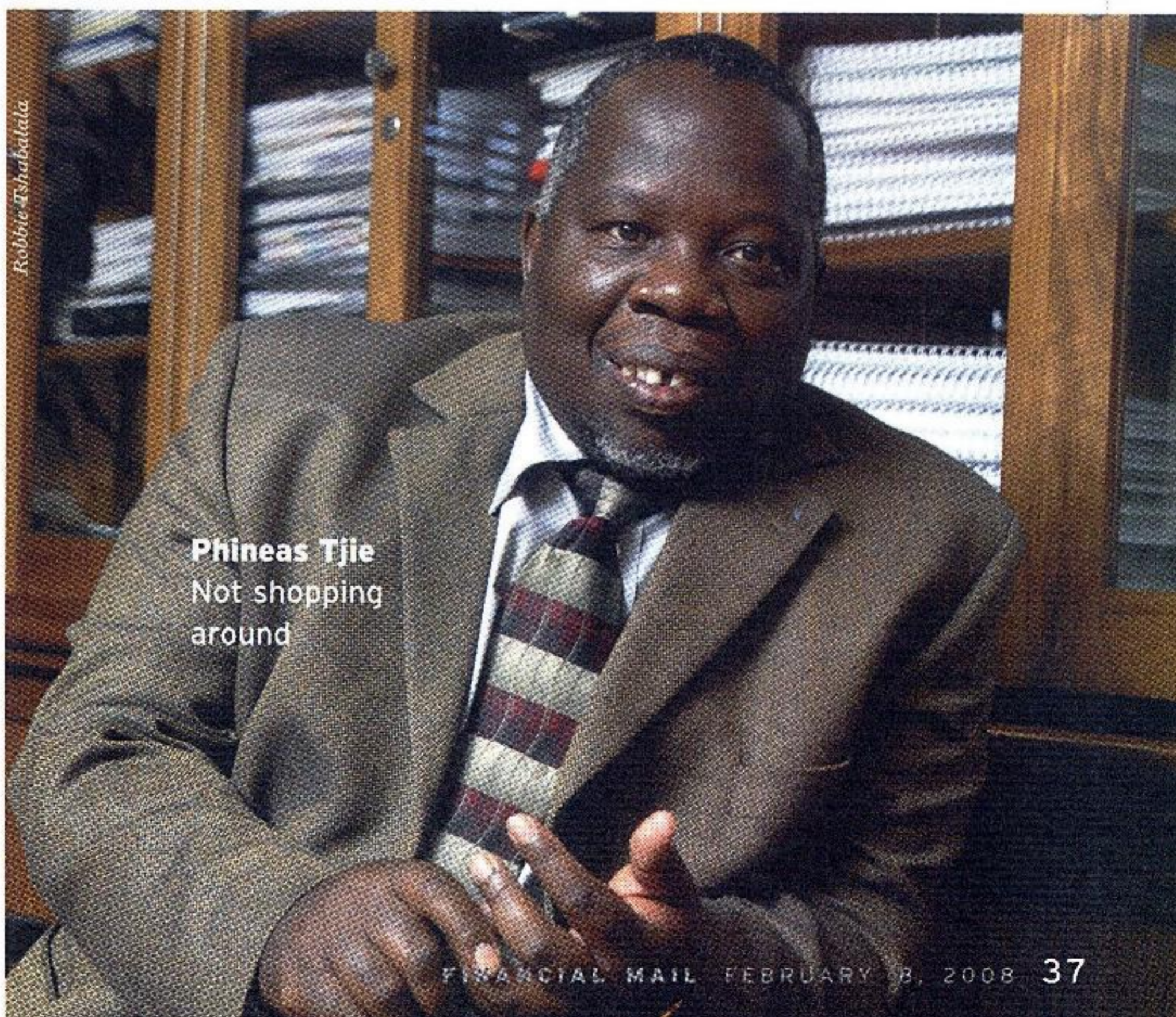
have discouraged people from taking them. But Andrew Ruddle, retail investment product manager at Old Mutual, says this has not dented their popularity. The SA Retirement Annuity Fund (Saraf) is the biggest fund in both assets (R57,96bn) and members (977 929) regulated by the Financial Services Board (FSB). Saraf owns only retirement annuity contracts underwritten by Old Mutual.

Being a retirement annuity fund that owns individual retirement annuity contracts, Saraf is unable to provide investment returns for the fund as a whole. Ruddle explains: "Members select the investment portfolios for themselves with the advice of an intermediary and from a range approved by the Saraf trustees." One of the most popular choices is the Smoothed Performance Fund (65% equities, 25% interest-bearing assets and 10% property).

Ruddle says Saraf "allows you to invest in a retirement annuity from a range of products, many of which provide the option of valuable underlying investment guarantees". Retirement annuities remain one of the most attractive and sensible choices as a vehicle to save for retirement in today's environment. Their main advantages are that contributions are tax-exempt and investment returns are tax-free. Tax is deferred until an income is drawn after retirement, when further benefit can be derived from generally lower tax rates for pensioners.

But despite tax savings, some care must be exercised so that high fees and poor advice don't negate these advantages. Says Ruddle: "Costs may seem higher on a life company retirement annuity, but come with the valuable advice and support of a financial adviser, and the associated costs of this service. Unit trust retirement annuities often seem cheaper, but tend to be bought directly and without the support of a financial adviser."

The main goal of someone saving for retirement, however, is to bulk up the capital for their retirement benefit. Ruddle's advice is: "Save a lot and aggressively at a young age or you will get into serious trouble later on."



Phineas Tjie
Not shopping
around