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## THE FUTURE OF “SMALL” FUNDS

The retirement fund regulator has stated a desire for the number of retirement funds to be reduced from in excess of 1,600 to less than 200 by means of a mass-migration of smaller funds into commercial umbrella funds. This has been widely reported in the press.

No indication has been given of what constitutes a “smaller fund” although the regulator has said this may be legislated at a future date. It has also been stated however that there will be exceptions.

*Employers who have their own pension or provident fund need to be aware of the cost/benefit position compared to a commercial umbrella fund alternative.*

*Consideration should be given to moving to an umbrella structure if this makes sense for members and employers, irrespective of any legislative pressures.*

*Otherwise, further details of the regulator’s intentions should be awaited.*

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## DOES SIZE REALLY MATTER?

Many retirement funds are said to incur unnecessary costs through operating as stand-alone legal entities i.e. as independently registered pension or provident funds. It is suggested that direct and indirect costs could be significantly reduced by moving members into “umbrella” funds – i.e. funds in which many unrelated employers participate. The argument is simple: share fixed costs among a greater number of members, and relieve employers and trustee boards of the growing burden of governance and regulatory compliance.

Further, the more funds there are, the greater the volume of control and oversight work for the regulator. A significant reduction in workload should lead to a matching reduction in costs – the Financial Sector Conduct Authority (previously called the “Financial Services Board”) is the regulatory body for retirement funds and is paid for through levies on funds and members.

As always, however, the appropriate behaviour for consumers is to do a proper cost/benefit analysis and then make the decision that best suits them – there’s more to this than costs alone.

## WHERE ARE WE IN THE UMBRELLA DEBATE?

At Robson Savage we hold a cautious view on the blind-dash approach to umbrella funds. As always, the Law of Unintended Consequences lurks around every corner and the correct way to look at things is to consider the ultimate outcomes for members and employers.

- **Members**

- Many customers find that they become beholden to the institution that sponsors their chosen umbrella fund. In the process, they give up the ability to “shop around” for the best insurance and investment products and costs: most commercial umbrella funds push the products of the sponsor, or act as a portal to external products – at a higher cost, of course. This is not how people shop in the normal world. If outcomes are adversely affected, then the customers have not been treated fairly.
- There is evidence that umbrella fund cost structures are less transparent, and often higher, than consumers are being led to believe. In many cases the costs are not apparent, but of course inevitably show up in reduced investment returns and hence worse ultimate outcomes. This again is not treating customers fairly.

- **Employers**

- Very many retirement funds have specific servicing features that are particular to the employer. Most commercial umbrella funds on the other hand offer a limited range of choices and little opportunity to cater for employers’/members’ special requirements. Of course you do have to keep in mind the cost versus the benefit of special service.
- A lot of umbrella fund administrators push administration work onto the participating employers. This can lead to lower observed fees while masking increased costs, responsibilities and risks for employers and members. We regularly come across employers who are tearing their hair out at the poor state of fund administration.
- A point that is often overlooked is the central importance of the role played by the employer as a stakeholder in retirement fund arrangements. The employer has a key interest in the success of the outcomes experienced by staff, and it’s unwise for employers to disconnect themselves from the operation of the retirement savings arrangement.

Flaws in the operation of many commercial umbrella funds remain unaddressed. Prominent independent retirement fund lawyer Jonathan Mort has recently spoken out about the problems inherent in the operation of many commercial umbrella funds. His comments echo what we at Robson Savage have been saying on the subject for many years. Consumers would do well to take notice.

## **CONCLUSION**

There is no doubt that a well-structured umbrella fund will suit many employer and members.

Robson Savage’s Acumen Umbrella Fund solution is a best-of-breed umbrella design – each participant is free to shop around for the most appropriate insurance and investment products, on a fully transparent fee basis.

The sensible approach is:

- Where a compelling case exists for an employer to make its staff retirement arrangements through an umbrella fund then it should of course do so.
- Employers and empowered members need to remain engaged and involved to ensure that the ultimate outcome – the pot of money at retirement – is not impaired by the approach taken, or the particulars of the fund they select.

Structures should ultimately be to the benefit of members and employers rather than simply what suits service providers or the regulator.

The real focus needs to be on the outcomes: the amount of money members ultimately accumulate as their retirement savings.

If “small” funds are indeed legislated out of existence, then care must be taken in selecting an appropriately structured umbrella fund.

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## **WHAT DOES THIS MEAN FOR YOU?**

Actions to be taken by boards of funds:

*Robson Savage has discussed the possibility of restructuring to an umbrella fund operation on numerous occasions over the years.*

*Evidence shows that the move to an umbrella structure must be carefully considered: it does not always lead to the promised better outcomes.*

*If such a move makes cost and operational sense then of course it should receive serious consideration.*

*Otherwise, full details of the regulator’s intentions should be awaited.*

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