



HEAD OFFICE
Johannesburg
1st Floor, Norfolk House
Cnr 5th Street & Norwich Close
Sandton, 2196
PO Box 651826, Benmore, 2010
Tel (011) 884-8454 □ Fax (011) 884-1144
E-Mail: enquiries-jhb@pfa.org.za

Cape Town
2nd Floor, Oakdale House, The Oval
Oakdale Road, Newlands, 7700
P O Box 23005, Claremont, 7735
Tel (021) 674-0209 □ Fax (021) 674-0185
E-mail: enquiries@pfa.org.za
Website: www.pfa.org.za

Please quote our ref: PFA/KZN/5660/05/CN

RE: DETERMINATION IN TERMS OF SECTION 30M OF THE PENSION FUNDS ACT, 24 OF 1956 (“the Act”): D NAIDOO v ADT SECURITY PROVIDENT FUND

INTRODUCTION

- [1] This complaint relates to the computation of the withdrawal benefit payable to a member of a fund upon the termination of his membership thereof.
- [2] The complaint was received by this office on 29 September 2005, and a letter acknowledging receipt thereof was sent to you on 7 October 2005. On the same date a letter was dispatched to the respondent requesting it to submit a response by no later than 30 October 2005. The response, dated 31 October 2005, was received on 31 October 2005. A copy of the same was forwarded to you for a reply on 1 November 2005. No reply has been received from you.

The complaint

- [3] You are not satisfied with the amount of the benefit that was paid out to you when your membership of the ADT Security Provident Fund (“the fund”) terminated in July 2005, and are particularly aggrieved by the administration and risk charges that were deducted from the contributions made on your behalf, and the fact that only 41.26% of the employer’s contributions was allocated towards your retirement funding. You contend that the said charges are unreasonable and were incorrectly charged from

V Ngalwana (Adjudicator), N Jeram (Deputy Adjudicator), C Nkuhlu (Snr Assistant Adjudicator), L Shrosbree (Snr Assistant Adjudicator), Z Camroodien (Snr Assistant Adjudicator), F Mtayi (Snr Assistant Adjudicator), K MacKenzie (Snr Assistant Adjudicator), R Maharaj (Snr Assistant Adjudicator), N van Coller (Assistant Adjudicator), L Mbalo (Assistant Adjudicator), J Mabuza (Assistant Adjudicator), V Abrahams (Assistant Adjudicator), S Gcelu (Assistant Adjudicator), T Thabethe (Assistant Adjudicator), M Ramabulana (Assistant Adjudicator)

Office Manager: L Manuel

you.

The response

- [4] In response, the fund states that the withdrawal benefit of R3 061.92 that was paid out to you represented your full and correct entitlement in terms of the rules. It further states that only the employer contributed to the fund, at the rate of 16.5% of each member's pensionable emoluments. According to the fund, before the employer's contribution is invested, administration costs and the costs of providing risk benefits are deducted as is provided for in rule 10.2.
- [5] In an e-mail that was addressed to your financial advisor, dated 16 September 2005 (annexed to the complaint), the fund's administrator sets out the breakdown of the benefit. It is stated therein that the costs of running the fund, as well as reinsurance costs, are deducted from the employer's contribution before it is invested. According to the administrator, the former include administration costs, audit fees, bank charges, RSC levies, FSB levies, trustee training fees, and trustee liability insurance. The administrator explains that between the financial years 2001 and 2004, an average of 3.975%, in respect of the former, has been deducted from the employer's contribution.
- [6] The administrator goes on to explain that as a member you enjoyed the following risk cover: death benefit cover, disability income cover, lump sum disability cover, a funeral scheme benefit and a children's education cover. The cost thereof, according to the administrator, has increased over the years from 14.4% in 2001 to 55.7% in 2004. The administrator ascribes the increase to the huge impact that AIDS has had on the cost of insurance. It concludes that the fund's trustees have tried to manage the costs by ensuring that the settlement of death claims in total over the period is similar to the premiums paid.

Determination and reasons therefor

- [7] The issue for determination is whether your benefit was correctly computed in terms of the rules, and particularly whether the fund was authorized to deduct charges from the employer's contributions, which negatively impacted upon the amount of the withdrawal benefits payable to the members.
- [8] It is common cause that the fund is a non-contributory fund for members and that the employer contributes 16.5% of the members' pensionable

- emoluments to the fund. Rule 7.5.1 provides that the employer's contribution shall make provision for expenses and reinsurance premiums.
- [9] Rule 9.9.1 entitles a member who resigns voluntarily from service to either a cash benefit equal to his equitable share, or to a preservation benefit. Rule 8.6 sets out the calculation of the equitable share, and provides that the same comprises the contributions by the member and the balance of the employer's contributions after the deduction of administration and reinsurance costs, together with interest.
- [10] From the above it is clear that the rules authorize the fund to first deduct the costs of running the fund as well as reinsurance costs before allocating the contribution towards the cost of retirement benefits. Furthermore, there is no limit in the rules as to the percentage that has to be allocated towards those costs. It is a sad reality that AIDS has had a huge and negative impact on the cost of insurance. This has led to some funds' deciding to outsource the provision of risk cover and only providing retirement benefits from the fund.
- [11] It is a fact that as a result of the constantly rising cost of risk cover not enough is allocated towards retirement funding. That the fund still nevertheless continues to provide risk cover does not by itself prove unreasonableness on the part of the fund's trustees.
- [12] In the result, I find that the fund has acted in terms of the rules by deducting fund running costs and the cost of providing risk cover from the employer's contribution. I further find that you have received your correct benefit entitlement in terms of the rules.
- [13] The complaint is dismissed.

SIGNED IN CAPE TOWN ON THIS DAY OF 2007

Yours faithfully

.....
VUYANI NGALWANA
PENSION FUNDS ADJUDICATOR