PERSONAL FINANCE

Protecting your retirement savings

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Illustration: Colin Daniel

Over the past two weeks I have been speaking at the Personal Finance/Acsis Financial Planning Club meetings around the country. In preparing the presentation (see "The greedy feed well off the billions you have saved"), I was shocked by the number of things that have gone wrong in the retirement industry. The disasters are getting bigger and bigger and are occurring all too often.

The presentation dealt mainly with the more prominent problems, but there were many others that I did not include. It also dealt with apportioning blame to those who are supposed to protect retirement fund members from excesses.

The one thing that struck me is that all of us, as retirement fund members, probably do not do enough ourselves to protect our savings.

It is probable that most of us see money deducted from our income or bank accounts every month and then presume that it is being paid into a retirement fund and that it will be properly managed, and that one day when we retire there will be sufficient money to provide a reasonable income. (That is, assuming you started to save young enough, did not retire too early and, most importantly, did not cash in your retirement savings along the way.)

Most retirement funds are well or reasonably managed, but all of us, as fund members, can and should play a role in protecting our retirement savings – particularly considering this is probably the biggest single pot of money that any of us will have.

And there are ways you can protect your savings. These include:

* **Electing competent retirement fund trustees.** Trustees have what is called a fiduciary duty to protect your retirement savings. This means they must act with greater care than they would in looking after their own money.

Trustees can and must use experts to assist them and these experts also have a fiduciary duty.

The nomination and election of trustees can differ among the different types of funds.

- **Employer-sponsored retirement funds**. Fund members have the right to elect half of the trustees.

You need to ensure that your trustees are up to the job. The attributes you need to look for are intelligence, wisdom, the strength of character to stand up to anyone who would attempt to bully them, and, most importantly, integrity.

Voting for someone simply because they are likeable is not the answer. You need someone who is tough, skilled and prepared to be nasty.

- **Umbrella retirement funds**. These can either be industrial sector and trade union funds, with the members coming from the industrial sector or trade union; or financial sector umbrella funds, offered to employers (known as participating employers) for use by their employees.

Members of umbrella retirement funds are not automatically entitled to elect trustees. In the case of industrial funds, the trustees are normally appointed by the employers in the sector and organised labour, and by organised labour in the case of trade union funds.

In the case of financial services umbrella funds, the trustees are appointed by the financial services company sponsoring the fund.

These funds are expected to appoint independent trustees, but the majority of trustees do tend to be employees or former employees of the sponsor. In the past, but increasingly less so, trustees have been forced to accept rules that have limited them to using services, such as asset management, provided by the sponsoring company, which may not be in the best interests of members.

In order to overcome this lack of representation for members, financial services industry funds in particular are encouraging participating employees to set up member/employer committees, which can make decisions about which fund to choose and what investment options to offer members.

If you are a member of a financial services sector umbrella fund, you should demand details of costs, which can be high in an umbrella fund.

You should also be provided with details of what any consultant or adviser is paid and what the consultant is expected to do for the payment. In some cases, the consultants are simply product floggers, who are paid commission as high as seven percent of your contributions simply for selling the product.

You should ask for the rules of the fund to ensure there are no limitations on trustees, as well as find out who the trustees are. Are they simply employees or former employees of the sponsoring company?

- **Retirement annuity (RA) funds**. The governance structures for RA funds are much the same as they are for financial sector umbrella funds, except that you have no say at all, through member committees, in the running of the fund.

So you need to avoid RA funds with a predominance of trustees who are employees or former employees of the sponsoring company, and where all services, including asset management, are provided by the sponsor.

You need to be particularly careful of life assurance RAs, where you may be charged a penalty for not being able to keep up your contributions, even in such cases as when you lose your job.

* **Ensure you read all the documents.** This includes reading the rules of your fund. The rules dictate how your fund is managed, as well as what you are entitled to.

Your fund should also have an investment policy statement and a communication policy statement. You should read both and understand what you are entitled to receive.

The fund should also have a code of conduct for its trustees, which will deal with things such as conflicts of interest, including the appointment of service providers. If there is no code of conduct, you should be very wary.

Finally, if anything goes wrong, and this includes not receiving your benefit statement, complain to the Financial Services Board and/or the Pension Funds Adjudicator.

WARNING SIGNALS FOR RETIREMENT FUND MEMBERS

There are numerous signals that could indicate that all is not well with your retirement fund. These include:

*** No benefit statements.** A benefit statement provides you with details of your accumulated benefits both for retirement and if you die before retirement. You are entitled to a benefit statement at least once a year and on demand. A benefit statement plays an important part in planning your overall finances and will be required by your financial adviser.

If you are not being provided with a benefit statement it could indicate that there are administration difficulties and problems in valuing your accrued benefits.

*** Confusing benefit statements.** If you do not understand your benefit statement, and even more so if your financial adviser does not understand it, particularly relating to values, there is a possibility that an administrator is trying to confuse you.

*** Delays in paying benefits.** If there are delays, within reasonable expectations, in the payment of benefits on withdrawal from a fund or at retirement, or delays in paying benefits to dependants and beneficiaries on the death of a member, it could indicate that there are administration problems.

*** No interaction or communication with members.** This is a sure sign that your fund does not want you to know what is happening. Your fund is obliged to have a communication policy and to tell you about issues that may affect your savings. This ranges from rule changes to things such as sudden changes in asset values.