Trade union pension funds sit with billions of rands in unclaimed benefits

More than half the unclaimed benefits of R42 billion owed to roughly 4.2 million former workers are bottled up in just two trade union-affiliated pension schemes.

This is one of the findings in a recent report into unclaimed benefits entitled The Bottom Line by non-profit organisation Open Secrets. The amount of unclaimed benefits owed to former workers rises to more than R51 billion if funds falling outside the Pension Funds Act are added.

The fund with by far the largest amount of unclaimed benefits is the Metal Industries Benefit Fund with nearly R19 billion, followed by the Mineworkers Fund with R4.3 billion. These numbers are from a 2017 report on unclaimed benefits from the Financial Services Conduct Authority, or FSCA (formerly the Financial Services Board).

Administrators earn huge fees on these unclaimed benefits, which would disappear if the beneficiaries were to be located and paid out.

GroundUp asked for comment on the Open Secrets report from the regulator, the FSCA, and two administrators, Liberty and Alexander Forbes. Only Liberty responded.

Tiaan Kotze, managing executive of Liberty Corporate, said the problem of unclaimed benefits is decades old and not unique to South Africa. He said workers often left employment unaware that they have pension benefits owing to them. The administrators responsible for safekeeping fund members' personal data often kept poor and incomplete records, he says. For example, many members were identified by their initials and surnames, rather than their full names. Nor, apparently, was there much effort to keep a record of forwarding addresses, which was a particular problem when workers went back to the rural areas or neighboring countries. They simply disappeared off the radar, says Kotze.

Benefits Exchange allows those who believe they may have unclaimed benefits to do a free search, and claim a 12% success rate on search requests. The FSCA also has an unclaimed benefits database search facility. Benefit Exchange founder Sean Rossouw says by far the greatest culprits in dragging their feet over the tracing of beneficiaries and payment of unclaimed benefits are the trade union-affiliated funds which are not administered by large third-party administrators.

"These funds account for about 80% of all unclaimed benefits," he says. "Some administrators such as Liberty are far more diligent in tracing beneficiaries than others. The reasons some are more lethargic than others is obvious, he adds: if they were to be too successful in tracing beneficiaries, some administrators might be out of a job as the fees they earn from active fund members would not carry their operating costs.

"Our experience with the trade union-administered funds has been frustrating for many claimants. We have done searches on behalf of former members that show they are entitled to benefits, yet when they then approach the administrators directly, they are told there is no record of them on file."

"Our impression is they are not trying very hard to assist former members and poor staff quality and training results in valid claims not being processed," says Rossouw.

Where fund administrators have been tracing members of funds, the processes have remained the same for more than 15 years. Meanwhile, the amount of unclaimed benefits increases every year. Rossouw believes that it is critical that fund administrators and trustees try alternate tracing methods to complement existing processes.

In addition, poor membership records mean the unclaimed benefits will continue to increase. "It is time for the FSCA to implement data quality requirements and audits which is the practice in the United Kingdom," adds Rossouw.

Administrators charge up to R12 per member per month – or R144 per year. Liberty charges R10 per member per month for administration, and 0.6% annually on long-term funds invested. By way of comparison, a typical fee on a commercially available retirement annuity is between R60 and R80 a month for administration, and 1% annually to the manager who invests the funds.

For the millions of claimants with relatively small unclaimed benefits, these fees can quickly gobble up whatever meagre benefits they are entitled to.

Often administrators do not earn fees when a member leaves employment and is no longer an active member of the fund. One way for administrators to start earning fees again is to move these “dormant” members into an unclaimed benefit preservation fund after two years, and then to drag their feet in tracing the beneficiaries.

“We’re not trying to make secret profits on unclaimed benefits,” says Kotze of Liberty Corporate, one of the largest administrators in the industry, with R2.2 billion in unclaimed benefits. In the last two years it paid out R270 million in unclaimed benefits to roughly 39,000 claimants.

Kotze says Liberty has more than 50 people in the company working full time at tracing beneficiaries in old funds and getting benefits paid to members. The company also uses the services of outside tracing agents.

SA had about 13,000 retirement funds at the time the Financial Services Board (which later became the FSCA) began a project to deregister funds about 12 years ago. Of these, about 6,700 were administered by Liberty. The number of funds has since been whittled down to about 5,000, of which 1,300 are administered by Liberty.

“This was done because the cost of administration is a huge financial burden to the industry,” says Kotze. “To the best of my knowledge, Liberty is the only administrator to engage with the Unclaimed Benefits Campaign (which lobbies on behalf of beneficiaries owed money in these funds), assisting them to reclaim benefits that remained unclaimed.”

“The unclaimed benefits in funds administered by Liberty account for about R2 billion of the R42 billion of unclaimed benefits across the industry. We are fully committed to paying the benefits to members of these funds and are investing significant resources into enhancing our tracing and payment capabilities,” says Kotze.

Pensions fund whistleblower Rosemary Hunter says Liberty asked the Registrar of Pension Funds to cancel the registrations of 130 funds with assets of some R110 million. The company later applied to the court to set aside the cancellations of 25 of them and that application was granted in March 2018.

“The problem is that while all this delay is happening, beneficiaries could well be dying,” says Hunter. “Liberty said that it was going to be making several more applications to court for the reinstatement of the registrations of the remaining 105. But then it didn’t do it.

“There is still no sign of more applications by Liberty and the fear now is that it is waiting for an amendment to be made to the Pension Funds Act to allow the FSCA to reinstate the funds so that it can be done quietly and without the necessity to explain why the funds’ registrations had been cancelled in the first place. In the meantime those entitled to the money held by those funds get older and no doubt some of them have died and more will die before the funds’ registrations are reinstated and board of trustees or curators are appointed to make sure that their assets and liabilities are disposed of properly.”

Kotze replies: “Over the course of 2007-2013 the South African pension fund industry embarked on a wide-scale project to deregister dormant retirement funds. Following a review of systems and processes, Liberty identified approximately 130 funds that were deregistered in error. Liberty has successfully re-instated 25 of these funds via the High Court and is working with the regulator and trustees to allow for benefits to be paid to members as soon as possible.”

Liberty says those who believe they are entitled to unclaimed benefits can access the Liberty Unclaimed Benefits service.