The Hospitality Industry Provident Fund (HIPF)

by Allan Horwitz

The Hospitality Industry Insurance Fund (HIPF) is a working class institution operating in the finance sector providing retirement, insurance and housing benefits. It serves mainly low paid workers in the catering and allied sectors

With assets of R120-million its objective is to maintain independence as an autonomous organisation controlled by its members in their interests as opposed to the interests of external organisations such as the mainstream insurance industry, contributing companies or trade unions.

The HIPF dates back to 1966 when it was an industrial council pension fund for the liquor and catering trades in Johannesburg and served only white, coloured and Indian workers. In 1982 the Industrial Council broadened its scope to include African workers. The Hotel and Restaurant Workers Union (HARWU) initiated a process of change which resulted in major improvements to benefits and greater worker input. However, the industrial council dissolved in 1989 and membership of the fund became voluntary. The administration, insurance and investment aspects of the fund were taken over by Fedsure which had represented itself as an 'expert' in the field of industry funds. In 1994, after a prolonged legal battle, the fund moved to Southern Life. (Court action by the trustees forced Fedsure to accept the validity of the trustee decision to transfer; Fedsure was forced to pay the fund damages as compensation for maladministration.) Significant improvements were achieved under Southern Life - in particular, the fund changed its status from 'underwritten' to 'private' meaning that it appointed an independent auditor, actuary and principal officer. However, members and trustees alike realised that in the long run, meaningful control and maximisation of service and benefits would only be possible under self administration and self insurance. This was achieved in 1998 when the fund established its own offices, purchased the necessary systems and employed its own staff.

Self-administered fund

HIPF is currently self-administered and self-insured thereby guaranteeing its autonomy on behalf of members. It has successfully challenged established vested interests in retirement funds in the catering sector. A provident fund in the Pietermaritzburg area has recently merged with the HIPF.

Worker control

While the history of retirement funds has been one of little direct member control, the HIPF has set up a special member forum consisting of one worker representative from each participating workplace. It meets once a year at national level and twice a year at regional level. All major trustee decisions must be ratified by the member forum; recommendations by the forum often form the basis for trustee decisions.

The result has been the implementation of superior benefits and the evolution of an investment strategy that favours working class priorities such as housing and venture capital investments for job creation and black economic advancement.

Today at least six trade unions participate actively in the running of the fund. Each union participates on equal terms, although HIPF worker trustees are elected directly by the membership.

This has have worked because the unions concerned have respected their members' independence regarding their choice of retirement fund and understood that the HIPF is a parallel worker organisation operating in an area in which most trade unions do not have competency.

The HIPF is registered with the Financial Services Board as an administrator and is therefore legally able to administer other funds. We plan to launch an independent administration and insurance entity which will operate on a non-profit, cost recovery basis enabling workers in other sectors to benefit from the HIPF experience. We will offer a superior service within the framework of an organisation that is efficient and cost effective but which maintains a worker driven ethos as opposed to corporate culture.

We hope trade unions will see the advantages for their members of such an institution in terms of its competency and ideological affinity, whilst respecting its independence and thereby safeguarding workers' direct economic interests as long- and short-term savers.

Current legislation

The HIPF views itself as a new type of working class organisation – one that ideally should be able to provide a wide range of financial options and services that are appropriate to the current needs of the majority of workers. However, in order to play such a role, certain legal and structural elements have to be put in place. These elements are as follows:

- provision of both housing and education loans (up to a maximum of 75% of a member's savings);
- provision of micro loans (for all purposes) secured by the member's retirement savings;
- an interest return that is as close to the overall fund return as possible;
- regular distribution of surpluses;
- transparency in respect of contribution and loan statements (reflecting the breakdown of monies received and insurance and administration costs);
- issuing of statements on a six monthly basis;
- issuing of statements for paid up members (that is, members who cease contributing on a monthly basis but still have savings in a fund);
- a legal obligation on employers to provide stop order facilities to repay loans;
- abolishing vesting scales so that a withdrawing member receives the full employer contribution (less insurance and admin costs);
- freedom to transfer without penalties – transfers to include a fair share of any surplus or reserve;
- a single tax regime for both pension and provident funds;
- abolishing 'underwritten' funds as such arrangements give too much power to

the underwriter and lead to administration, insurance and investment being concentrated in one company;

- all funds to have an independent auditor, actuary and principal officer;
- election of trustees by the members;
- for large funds (in excess of 1 000 members), establishing a fund structure that is broader than the board of trustees;
- establishing industry funds (across the trade union spectrum) to maximise the benefits of the economy of scale with respect to the lowering of insurance and administration costs.

All these elements have been put in place by the HIPF, except tax equality between pension and provident funds and the granting of education and micro loans as such practices are currently illegal and will not be sanctioned by the Financial Services Board despite repeated applications by the HIPF for permission Indeed, the major stumbling block to implementing these aims is the current legal framework (the Pension Funds Act and certain aspects of the tax regime) as well as the nature of the Financial Services Board, an institution still in the grip of conservative forces largely loyal to the interests of big business and the insurance industry.

The retirement fund industry is the single most important reserve of savings in our economy. As such the investment of its monies performs a vital function. Given the massive inequalities and social problems facing South Africa, there exists a profound need for these monies to be invested in ways which enhance the standard of living of the majority of people and job creation. The average wage level in the formal sector is approximately R1 400 per month – a level which forces workers to depend on credit in order to survive. However, such a wage level does not meet the lending requirements of banks, and workers are pushed into the arms of micro loan institutions that have a history of charging enormously inflated interest rates and use highly questionable methods for debt collection. For the vast majority of workers their retirement fund (because it is a condition of employment) is the only source of savings.

The central legal point is that retirement fund monies are deferred payment (that is money that will be paid at a later date) and as such should come under the direct control of the wage earner. Modern labour mobility makes it extremely unlikely that a worker will spend most of his/her working life employed by one or even two or three companies. The pattern is towards frequent moves as the economy is deregulated and liberalised and casual, temporary and subcontracted jobs become a new norm.

The usefulness of final benefit funds is therefore suspect (as most workers do not retire with many years of service with one employer). The widespread practice of vesting scales on company contributions also robs short service workers.

Many funds have also built up significant reserves and surpluses. These have largely been used to prop up insurance companies guaranteed portfolios or enable companies to take 'contribution holidays' (that is, not pay contributions for a while).

We therefore welcome the current plan to redraft the Pension Funds Act. However, it remains to be seen how far the changes will go in making the law reflect the needs of the majority of retirement fund members. ★

Allan Horwitz is the principal officer at HIPF