BENCHMARK SURVEY **2015**

A future worth saving...

Research Insights Report

Sanlam

Insurance | Financial Planning | Retirement | Investments | Wealth

contents

A future worth saving for

I was intrigued to learn, while pouring through some of our research data, that the oldest fund in our survey this year came into being well before the Pension Funds Act itself was promulgated in 1956. One stand-alone fund has been in existence since 1937 and a union fund since 1952! This signifies the lengthy endurance of retirement fund provisions historically, and accentuates the crucial role employers play as a credible institution in our industry. This insight further reinforces this year's research theme "A future worth saving for".

Dawie de Villiers
Chief Executive Officer:
Sanlam Employee Benefits

Our main objective for the Sanlam BENCHMARK Survey is to provide insights which stimulate conversation and create meaningful opportunities for further engagement with industry stakeholders. Against the backdrop of our theme this year, we unpacked the consumer space to highlight the all-pervasive issue of debt. We investigated the extent to which debt has had an impact on the financial and emotional well-being of employees. And through our qualitative survey, we were able explore the extent to which indebtedness encourages the tendency for members to withdraw from their employer sponsored funds to access retirement benefits prematurely.

Sample structure change

This year we made some changes to the sample structure of stand-alone retirement funds, by increasing the number of participants with assets under management in excess of R1 billion. We compiled the sample structure on this basis to enable a more granular level of analysis. It allows us to test whether there are any behavioural similarities between funds of different sizes.

It is essential for me to acknowledge that this survey would not have been possible without the willingness of the numerous principal officers, trustees and employer representatives who actively participated. It has further been brought to my attention that an increasing number of consultants are also assisting principal officers to ensure that we can provide the industry with a more accurate assessment of costs and benefit structures.

I am indeed very grateful for this continued commitment to the survey, implied by the active year-on-year participation. Furthermore, in the current study, 62% of the participating employers and 67% of the stand-alone retirement funds' respondents actually participated in the interviews last year. I am also conscious of the considerable time constraints faced by funds' principal officers, 13 of whom also sit on their medical aid boards.

We are constantly on the look out to improve the quality of our research. If you would like to participate anonymously in the survey on behalf of your fund or employer, please feel free to make contact with Linda Findlay from BDRC.

Research analysis

I am proud to present the analysis from the Sanlam Employee Benefits team on some of the main findings of the 2015 research in this report. We are not able to unpack all the findings within this report but more detailed analysis, can be accessed on www.sanlambenchmark.co.za In addition we will be sharing research insights through our extensive communication channels across the various media platforms.

I trust that this edition of the Sanlam BENCHMARK Insights Summary Report is as insightful and valuable as it has been in the past.

My sincerity and gratitude is extended to all who made this work possible.

Executive Summary

Rhoderic Nel
CEO, Sanlam Employee Benefits: Investments

This year we aptly themed our research "A future worth saving for" because at the heart of everything we do, we understand that financial resources are a key enabler to realising life goals.

Over the last 8 years, the Sanlam BENCHMARK Survey has expanded significantly to include additional research components. This Research Insights Summary report is based on the team's collective analysis and insights from the following surveys and focus group discussions:

Quantitative Study	No. of interviews
Standalone Defined Contribution Funds	90
Standalone Trade Union Defined Contribution Funds	10
Participating Employers in Commercial Umbrella Funds	100
Active members of retirement funds	503
Pensioners: Based on a cross-section of retirees in receipt of an annuity income	252
Pensioner Booster Sample: Based on a cross section of retirees in receipt of an annuity income in excess of R25 000 per month	50
Qualitative Study: Active members	2 focus groups

As you can see from the table above, between February and March this year we held over one thousand discussions with various stakeholders.

At Sanlam Employee Benefits we believe that unless we have a deeper level of understanding of the issues which impact retirement funding, we are not able to assist employers effectively in the design of their benefit structure.

Over the years we've highlighted a number of trends which we believe have an impact on the nature of retirement provisions, and which impact members' ability to achieve adequate retirement outcomes. Each of these **trends are reviewed** and considered in detail in the thought leadership insights papers which form the basis of our analysis.

Shift from Defined Benefit to Defined Contribution Funds

Here we unpack the effect of the transfer of investment risk from the employer to individual members. **Phillip Mjoli** reviews the increased level of accountability assumed by trade union retirement fund boards and sub-committees, when they rely heavily on the asset consultant to influence the investment strategies of the funds.

One of the variables which has had a significant impact on adequate financial outcomes at retirement, is the level of contribution by both the employer and the employee. We are pleased to highlight the increased levels of employer contributions across the board. This is evidenced in standalone retirement funds, particularly the larger funds with a membership base in excess of 501 members.

According to **Willem le Roux**, aggressive investment portfolios yield the best returns over the long-term. He points out that investors only run the risk of losing money at the point of terminating the investment during shorter-time horizons when investments are volatile.

At Sanlam Employee Benefits we believe that unless we have a deeper level of understanding of the issues which impact retirement funding, we are not able to assist employers effectively in the design of their benefit structure.

summary

Shift from standalone retirement funds to umbrella fund arrangements

We see this trend continuing with 51% of trustee boards having considered moving to an umbrella fund in the past 12 months. Although this trend is slightly down from the previous year's 54.5%, we attribute this to the sample structure change which consists of 20% of funds with assets under management in excess of R5 billion.

Mike O' Donovan provides a recap on umbrella funds and the issues which they face around governance, cost structures and lifestaging investments. **Shakeel Singh** and **Conrad Roper** pose the all-encompassing question, whether umbrellas are in fact the end game for employers who increasingly want to be less involved in retirement matters.

Member apathy and the evolution of lifestyle portfolios

For the past 7 years, we have been vociferous about members' inertia when it comes to actively engaging with their retirement provisions. I have viewed this topic from an investments perspective and deliberated the need for default strategies in the face of member apathy. Since members are not actively making these decisions and, with 83% being invested in the fund's default investment portfolios, I further explore the need for lifestage portfolios and question whether members have adequate exposure to growth assets during the end stage portfolios.

Danie van Zyl highlights that many funds provide member investment choice and in his paper he uncovers the view that decision avoiders are best aided with assistance through the Trustees default choice. In his article entitled "Mind the gap" he introduces the concept of a Defined Ambition fund, first coined in the UK. This concept is aimed at providing members with some sort of targeted pension, and combining all the elements of fund design to work towards this goal.

Karin Muller also provides a point of view on the importance of financial advice and the need for members to revisit their initial decisions regarding their retirement benefit options. She highlights that members, even those who have been at a company for more than ten years, have not reviewed those initial decisions.

Lack of preservation of retirement benefits on early withdrawal

This trend seems to continue unabatedly with 80.5% previously, and 75.4% having withdrawn from a retirement fund through resignation or retrenchment. Year-on-year we are astounded by the results that reveal the extent to which retirement benefits are being usurped by debt and ad hoc living expenses.

With the emphasis being placed on the preservation of retirement savings by National Treasury through their suggested reforms, **Jaco-Chris Koorts** and **Jayesh Kassen** look at the tax implications on withdrawal benefits. They also review the contrast in financial experiences between affluent pensioners who receive an annuity in excess of R25 000 per month, and other retirees with substantially lower monthly incomes.

The employer as a catalyst in retirement provisions

This trend has set **Freddy Mwabi** in the perfect position to write a paper on "Day One strategies in action". His paper alludes to the fact that the Day One strategy is a method designed to grab the attention of employees upfront, at the most crucial time in their careers, on the first day at a new employer. Freddy asserts that this is when we have the most leverage to influence decisions and change behaviours. Moreover, it is the perfect time to provide members with projected pension calculations to help members make more informed selections on their retirement options.

Viresh Maharaj takes another view in that he suggests that the role of the employer as a catalyst in the members' journey to retirement is pivotal. In his paper titled Engaged Employerism, he draws the analogy between the theory of Systems Thinking and the new role that HR has to play in reinventing the induction process.

Kobus Hanekom explores the role of two key institutions for our future success. Kobus believes that in South Africa and in the retirement fund industry, retirement funds and employers are crucial for the future success of our people.

Increased financial dependency on retirees, also referred to as the sandwhich generation

Retirees are taking on more financial responsibility than previous generations. Retirees now find themselves with adult dependants other than their spouse and minors for whom they need to provide. This places an additional financial strain on already limited resources.

Impact of longevity

Last year we reported on this trend for the first time. We considered the material impact that increases in life expectancy could potentially have on retirement fund provisions and the design of risk benefits. **Virath Maharaj** reviews the current risk benefit structures which are provided by employers and retirement funds. He further addresses the ultimate concern that risk benefits are generally expressed as a multiple of pensionable earnings (PEAR). In most instances, PEAR is expressed as a percentage (about 70%) of total guaranteed remuneration. He raises the concern that members could potentially be under-insured if they do not review their risk benefits regularly.

Impact of debt on retirement funding provisions

The underlying hypothesis for our research this year is that financial wellness has a huge impact on productivity. We further purport that debt as a function of financial wellness is the key contributor to employees' ability to cope with stress. **Viresh Maharaj** unpacks this on a deeper level in his paper titled "Engaged Employerism".

The financial effect of extended breaks-in-service

Mayuri Reddy included a fresh new topic in the research this year. In line with our main research objectives of identifying the various life events which play a role in adequate retirement provisions, Mayuri has investigated how employers deal with the diverse communication needs of their employee base. She highlights a key finding that the low level of understanding of retirement preservation has a profound effect on adequate retirement outcomes. Mayuri hypothesises that women are the most vulnerable given their increased life expectancy, the fact that they are more likely to be prone to extended periods of absenteeism at work due to childbirth, staying home to raise children or provide care to elderly parents.

I have merely touched on some of the many issues which my team and I have analysed, discussed and debated. South Africa has approximately 15 million employed people. Of these, around 80% of employed individuals are members of employer sponsored schemes. We do believe that employers are ideally positioned to assist employees with improving their financial wellness and, consequently, improve productivity levels where problems do exist.

Union Insights

Standalone

This is the third consecutive year that we have conducted research amongst trade union retirement funds. Our research enables us to provide some insights into the benefit structure of stand-alone union retirement funds. While our sample for the trade union retirement fund appears statistically negligible, I must stress that the survey participants are collectively responsible for an impressive R30 billion plus in assets under management.

Phillip Mjoli
Head: Sanlam Investments,
Institutional Segment

union insights

Fund size

The smallest fund has an asset value between R50 to R100 million and 5 out of 10 survey participants each has in excess of R5 billion assets under management. In terms of membership size, the sample has on an average 7 670 fund members. I believe that the sample composition and structure is significant enough to assist funds in making informed decisions.

Fund governance

Trade union fund trustee boards tend to be slightly larger than other stand-alone funds with an average board consisting of 14 fund representatives. We tested the extent to which retirement funds employ the services of professional trustees, and we found that 5 out of 10 funds do in fact have professional trustees, which is positive.

Trade union retirement funds also employ the services of independent and professional principal officers. A professional principal officer is a fund representative who is not employed by the employer or union. This is an individual who operates as a full-time principal officer with the requisite skills and is remunerated by the fund for this service.

Most trade union retirement funds still operate as self-administered stand-alone funds. We tested the likelihood of converting to an umbrella type arrangement and 8 out of 10 indicated that the board had not even discussed or considered such a move. The most common reason cited was a hesitance based on “the fear of loss of control” which would prevent boards from moving to an all-inclusive umbrella fund.

Service provider selection

Trade union funds are very prudent when it comes to fee structures with just half advising that if they were to consider moving to an umbrella arrangement, competitive fees would definitely influence the choice of service provider. The table below sets out the top three attributes which funds take into consideration for the following services.

	First	Second	Third
Retirement fund administration	Paying claims timeously	Transparency of cost	Loading & investing contributions timeously
Employee Benefits Consultant	Service levels of the Employee Benefits Consultancy	Fee level	Level of experience and track record of regulatory compliance of the Employee Benefits Consultancy
Risk Benefits provider	Price	Confidence that valid claims will be paid	Service levels of the insurer
Investment manager	Past performance of the investment manager	Organisational stability	Size of the investment manager

The majority of respondents felt that risk benefits are all homogenous, so price is the primary differentiating factor when it comes to selecting a risk benefits provider.

union insights

Remuneration and contribution levels

The majority of employers' remuneration packages are not structured on a total cost to company basis. The proportion of remuneration which is pensionable appears to be around 71%, which is important because members' risk benefits are in most instances expressed as a multiple of pensionable earnings. This could potentially be a concern if 8 out of 10 funds believe that the definition of risk salaries will effectively meet the needs of their member base.

Contribution levels

Contribution levels have remained fairly consistent year-on-year:

Contribution	Employer	Member
2015	*10.89%	6.94%
2014	7.55%	5.93%
2013	7.36%	6.94%

**The average employer contributions in this year's survey is significantly higher than in previous years, likely due to an increase in the number of very large funds in this year's survey sample.*

Not all survey participants provided the breakdown of their administration fees and other fund cost structures. Consequently we were not able to provide any benchmarks for review. We hope to have greater levels of success in future as the number survey participants increase.

Investments

The majority of union funds rely on the Investment Consultant (7 out of 10) or the Actuary/ Valuator (4 out of 10) for investment advice. Asset managers are largely recommended by the Investment Consultant whose choice is then ratified by the investment sub-committee. Investment feedback is provided either on a quarterly or annual basis.

It is expected by the majority of union funds that all Asset managers provide an economic/market overview during these feedback sessions.

If a manager has underperformed, the trustees prefer that more time be spent discussing the asset manager's investment philosophy and investment process.

Where the asset manager has outperformed, there is a slight deviation in focus where the attribution of performance is discussed at a stock level, together with the asset manager's investment philosophy and investment process.

In general, funds are satisfied with the level of investment feedback provided, with only a few indicating that the frequency of feedback sessions could potentially be increased.

By comparison to other stand-alone funds, around 80% of union funds' investment strategy is based on the trustees' choice, that is, there is no choice for members. This further exacerbates the level of accountability assumed by the Trustees and in particular the investment sub-committee for ensuring adequate retirement outcomes for members.

Over the next few weeks I endeavour to unpack the research in more detail and will provide you with more of our research insights for this year's BENCHMARK survey.

Standalone

Contributions

The number of employers who structure employee remuneration structures using a cost to company basis continues to escalate, with 60% of employers using this approach, compared to 55% in 2014 and 52% in 2013.

Danie van Zyl
Head, Guaranteed Investments: Sanlam Employee Benefits

When analysing the data by fund size, it is evident that there has been a significant increase in employer contribution rates across the board. Having said this, the percentage contribution by employers with 501 members and more is also higher. The apparent increase in the employer contribution level is a function of the change in the way we structured the question this year compared with previous years. We had a specific aim to obtain more accurate contribution rates, and therefore asked respondents open-ended questions.

The mean was calculated on the actual figures that respondents quoted in the interview and not by using percentage contribution bands (or ranges) from which the respondent had to select the appropriate band. In my view, the figures this year are a more accurate representation of employer contributions to retirement funding.

The average employer contribution as a percentage of total annual salary amounts to 11.09%, significantly higher than the 5 year average of 10.2%. Similarly, the average employer contributions for union funds amounts to 10.89% of salary.

As in previous years, retirement funds with less than 500 members tend to have much smaller level of employer contributions than larger funds.

33% of employers allow members to vary their employer contributions in terms of a package restructure arrangement, up from 23% of employers in the 2011 survey.

Employee contributions

The average employee contribution rate is 6.46% of total annual salary, marginally up on 2014's 6.44%. Average contributions for union funds amounted to 6.66% (2013: 6.94%, 2014 5.93%).

44% of funds allow their members to choose their own employee contribution levels. This is a big increase from 2013, where only 29% of funds allowed this.

82% of funds allow members to make additional voluntary contributions, up from 69.5% in 2011. The average additional voluntary contribution for these funds (as a percentage of salary) is 1.41%. Very large funds (more than 10 000 members) are more likely to offer this option.

Deductions

The majority of funds express their administration expenses as a percentage of a members salary (57% of funds), while a further 30% express this cost as a fixed Rand amount per member per month. Only 8% of funds express their administration expenses as a percentage of the fund's assets.

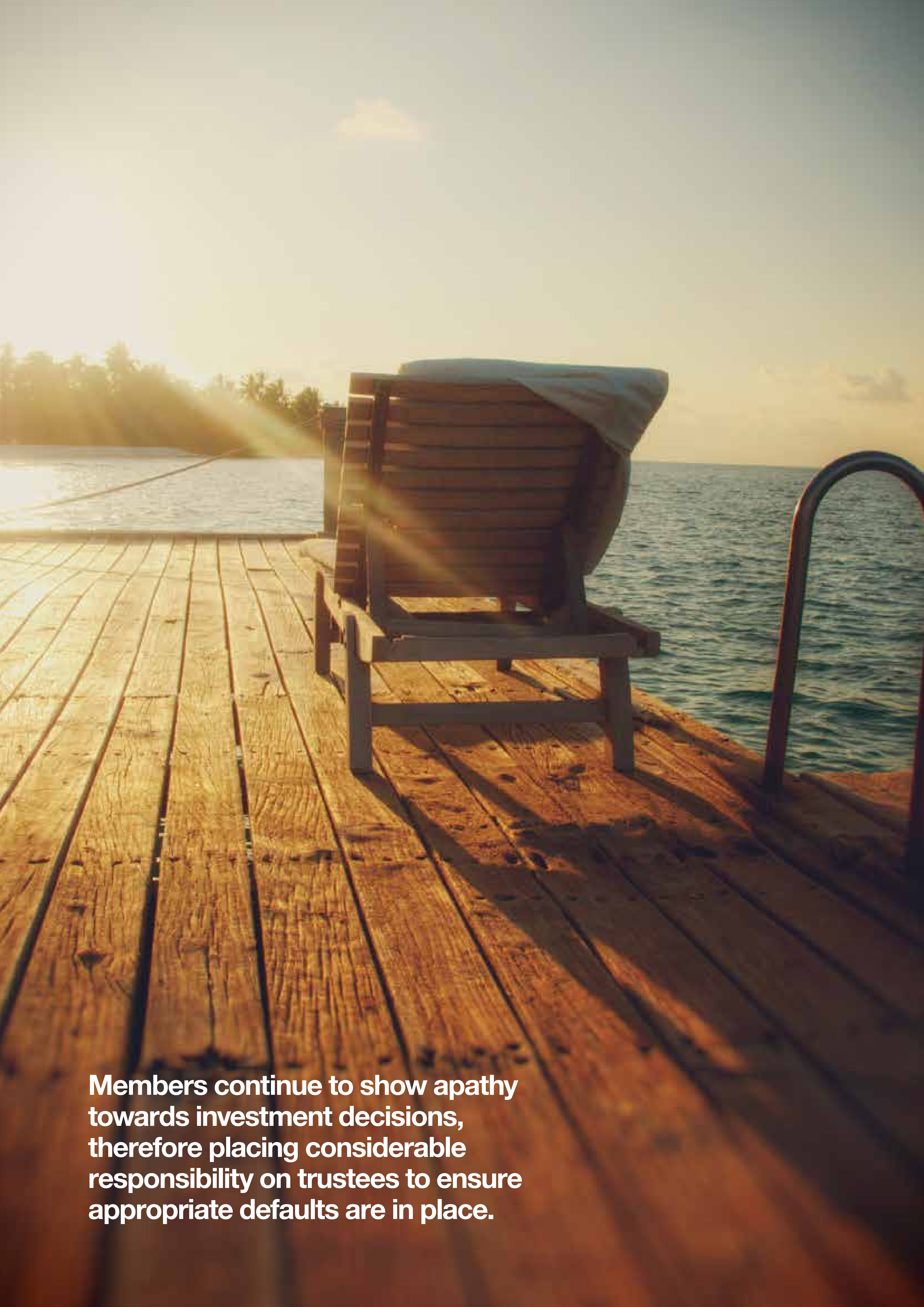
The average percentage of a member's salary that is deducted for fund administration is 1%, while the average fixed fee per member for standard members has increased from R34.52 pm to R42.26 pm.

As in previous years, members of very large funds (2000 to 10 000 members) benefit from economies of scale and pay a much lower administration fee of 0.49%, compared to members of smaller funds (less than 500 members) who pay an average of 1.36%.

The average deductions to cover the cost of life and disability cover in the fund have remained fairly steady over the last few years at 1.54% and 1% of salary respectively.

	2015	Average over last 5 years
Employer contributions	11.09%*	10.17%
Employee contributions	6.46%	6.17%
Deduction for life cover	- 1.54%	- 1.59%
Deduction of disability cover	- 1.00%	-1.09%
Deduction for administration costs	- 1.00%	- 0.96%
Total provision for retirement	14.01%	12.70%

**The average employer contributions in this year's survey is significantly higher than in previous years, likely due to an increase the number of large funds (501+ members) in this year's survey sample.*



Members continue to show apathy towards investment decisions, therefore placing considerable responsibility on trustees to ensure appropriate defaults are in place.

Standalone

Investments

Rhoderic Nel
CEO, Sanlam Employee Benefits: Investments

Member apathy demands default strategies

Members continue to show apathy towards investment decisions, therefore placing considerable responsibility on trustees to ensure appropriate defaults are in place. Furthermore, trustees are increasingly considering members' post-retirement income strategies and how pre-retirement investment strategies can facilitate optimal transitioning at retirement.

60% of standalone funds offer member investment choice, with almost 80% of those funds offering a default investment portfolio chosen by a trustee. While many trustees believe investment choice is necessary to allow for the various needs experienced by their membership base, members do not seem to be fully utilising the flexibility available to them. Trustees report that 83% of members are invested in the default investment option.

The majority of members surveyed were invested in a default investment portfolio as they were confident that their trustees were making appropriate choices for them. A further 30% were invested in this portfolio in order to achieve growth, however, they were not overly concerned with exactly how they were invested. Furthermore, we continue to see reliance on initial decisions made, as only 28% of members revisited decisions that they made on day one of employment. This presents two challenges for trustees:

01 Ensuring the default investment portfolio provides suitable returns to members so that they do not experience poor long-term growth, while ensuring members are not exposed to a high amount of risk.

02 Selecting a default investment portfolio that addresses the spectrum of members' needs, which may vary over lifetimes and investment horizons.

Evolution of lifestage portfolios

To address these challenges, the majority of trustees (61%) chose a lifestage portfolio as the default investment portfolio for their fund. Lifestage portfolios are typically structured to provide members with exposure to growth assets when they further away from retirement, and slowly reduce this exposure (in order to ensure capital protection) closer to retirement. We are increasingly seeing an evolution of lifestage portfolios to ensure that investments prior to retirement are aligned with the member's post-retirement income-generation strategy, with 54% of funds saying their lifestage portfolio's investment strategy is explicitly aligned to the annuity strategy.

We see these end stage investment portfolios increasingly allowing for a variety of member's needs; 42% (up from 32%) of standalone funds which utilise lifestage portfolios say that more than one end stage investment portfolio is available to members to allow for their annuity selection. The most popular annuity strategies allowed for are Investment-Linked Living Annuities (ILLAs) and guaranteed annuities (both those allowing for level pensions and pensions increasing at a fixed percentage).

The appropriate pre-retirement investment should preserve a member's ability to secure a required retirement income while allowing their investment to keep pace with inflation. Smooth bonus portfolios can also be suitable as a landing investment platform prior to purchasing a with-profit annuity due to the guarantees provided and similar smoothing philosophy. For an inflation-linked annuity, an inflation-linked bond portfolio may be more appropriate. For a living annuity, members still have a significant investment horizon post retirement and a moderate balanced fund is often used.

Do members have sufficient exposure to growth assets during end stage portfolios?

We see the popular choices for the end stage portfolio in the final year before retirement being a cash portfolio (54% of funds) or a conservative equity portfolio – with less than 40% equity exposure (44% of funds). In the first case, cash provides capital protection, but comes at the cost of returns. Considering that the average phasing out period for lifestage strategies is 5.6 years, this could mean members are giving up a significant amount of growth on their investment for this protection. On the other hand, exposure to volatile assets such as equities means that members run the very real risk of a sudden decrease in the value of their investments prior to retirement. Only 5% of funds utilise smooth bonus portfolios as their end stage portfolio to ensure members have sufficient exposure to growth assets, while benefiting from capital protection. Therefore trustees may need to re-evaluate the extent that the end stage investment portfolio in the lifestage strategy is appropriately matched to member's typical post-retirement income strategy.

Trustees may require assistance with this evaluation. Although 80% of trustees received investment advice from investment consultants, only 26% of funds chose their investment provider primarily based on the advice of the investment consultant. 64% of funds relied heavily on the investment committee for this decision, again emphasising the responsibilities of trustees. When choosing an investment provider, trustees ranked philosophy and process and past performance of the investment manager as being the most important criteria on which the provider was selected.

investments

Standalone

Risk Benefits

Risk benefits can be offered under an approved fund – for which risk premiums are tax deductible – or under an unapproved scheme, for which risk premiums are not tax deductible. The 2015 survey results indicated that 43% of respondents have risk benefits under approved funds and 18% have risk benefits under separate unapproved schemes. Interestingly, there has been a threefold increase in the past five years where 39% of respondents received risk benefits under both an approved fund and an unapproved scheme.

Death benefits

There has been a 45% increase from last year in members opting for flexible death benefits. However, within the flexible death benefits, there is a move away from core and flexible cover towards age-banded and lifestyle cover. This allows flexibility for the member while not requiring much input regarding member benefit changes over time. This plays an important role as members generally do not regularly update their cover levels in line with their needs.

The average cost of death benefits under approved funds has decreased from last year's 1.6% to 1.54% of salary, while under unapproved schemes it increased slightly to 1.27%.

The majority of members have death benefits paid as a lump sum defined as a multiple of salary. The average multiple of salary for death benefits is 3.4 and 3.2 for approved funds and unapproved schemes respectively.

There has been an increasing trend for members to pay for benefits provided under separate schemes instead of the employer. Risk benefits generally exclude the member's equitable share of the fund. This is coupled with the risk of normal retirement age being linked directly to the funds normal retirement age. The majority of respondents (80%) do not feel that the normal retirement age should increase.

Virath Maharaj
Actuarial Specialist, Sanlam Employee Benefits: Group Risk

Disability benefits

Approximately 40% of respondents indicated that they do not have disability benefits of any kind. 34% and 43% of the respondents said they have both permanent and temporary income disability benefits under approved and unapproved funds respectively. The majority of the disability benefits are provided as a monthly income.

The majority (72%) of disability income benefits are defined to be 75% of the members risk salary. The average cost of income disability benefits are 1% and 0.89% of the approved fund and unapproved scheme respectively. 65% of the respondents said their income benefits increase based on a percentage of CPI subject to an average cap of 6.28%. Average fixed percentage increases in the benefit have risen from last year's 5.5% to 7.83% this year.

The waiting periods for temporary and permanent disability benefits are 4.51 and 3.51 months respectively. A third of members said that their disability benefits reduced as they got closer to retirement. Their cover levels start reducing on average from 6.5 years before the normal retirement age.

75% of respondents claim not to have any lump sum disability benefits. For those that do have lump sum disability benefits, the average multiple of cover on approved funds is 2.94 which is 38% higher than for unapproved scheme. The average cost of lump sum disability benefits under both approved funds and unapproved schemes have decreased marginally to 1% and 0.89% of salary respectively.

The survey results illustrate that lump sum disability is moving away from being an accelerator benefit – (dependant on death benefit) – towards a separate benefit (independent of the death benefit).

Funeral benefits

58% of members have funeral benefits under a separate scheme, which has remained relatively constant over the past five years. There are an increasing number of members (25.9%) that are attaching extended family members to their policies.

The respondent's average level of funeral cover decreased from last year by 7% to R14 664 this year. This benefit has an average cost of R1.23 per R1000 of cover.

Risk providers

The survey has highlighted the main drivers that are considered by the market when choosing a risk provider. The top three significant drivers, in order of importance, are price, service delivery levels and the confidence of insurers paying out claims.

The typical turnaround time of claims has reduced over the past three years from 7.06 months to 3.73 months. This is indicative of the market reacting to the fact that service delivery levels play a vital role in the selection of risk providers.

A few quick insights

The recent legislative tax changes require employers to tax any fringe benefits, such as disability income benefits. The fringe benefit premiums will now be taxable while the benefit payments will be tax free. Members who keep their current benefit levels will now have to effectively pay higher premiums and the claimants may have higher relative incomes than needed previously.

Therefore, it could be a useful exercise to re-evaluate the current cover levels on income disability benefits for members in order to possibly re-align their income replacement ratios.

Only 24% of respondents have made changes to their income benefit structure due to the legislative changes on the handling of tax.

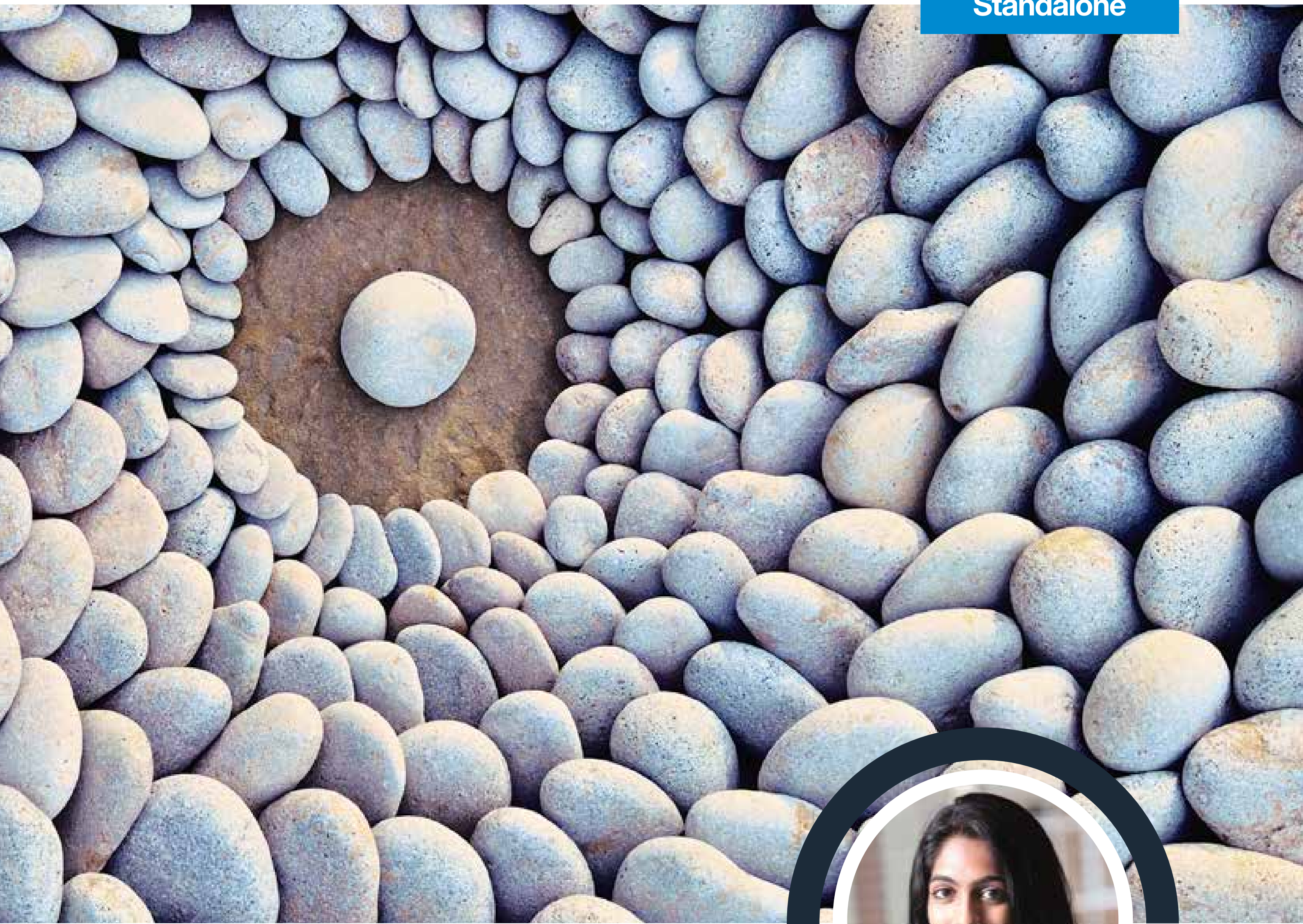
The majority of the respondents (74%) believe that all corresponding risk benefits are standardised between providers and price is the main differentiating factor. However, there are further differences to consider when comparing rates.

Risk benefits are generally defined as a percentage of salary. Therefore the definition of salary is material and should be consistent between providers. For both approved funds and unapproved schemes, 20% of respondents defined their salaries as Total Cost to Company (TCTC), while the remaining 80% have their risk salaries based on Pensionable Earnings (PEAR). This result indicates that there is no consistent market consensus on the definition of risk salary and care needs to be taken when making comparisons between risk rates. The market is slowly responding to this discrepancy, as 15.4% of the respondents have moved towards a unified salary definition based on TCTC and another 6.4% are already in the process of doing so.

When comparing risk rates, one needs to take into account differences in the terms and conditions between insurers. This is particularly important when comparing exclusions, disability definitions and value added services.

These are just a few of the considerations that need to be taken into account when comparing risk benefits. Hopefully, future innovation driven by the industry will develop appropriate solutions to solve these issues.

Standalone



Special Topics

This year, a key theme appearing across the survey results was that of communication and education. While communication is not a new theme, we evaluated the effectiveness of current communication in the 2015 Benchmark Survey.

Mayuri Reddy
Marketing Strategist

The importance of communication

Induction is frequently used by employers to convey key retirement benefit messages. 74% of funds highlighted the importance of member's taking responsibility for their retirement outcomes in a Defined Contribution (DC) fund, while 65% provided information on where and how to access more retirement information. 53% of funds covered the importance of preservation to members during their first few days of employment.

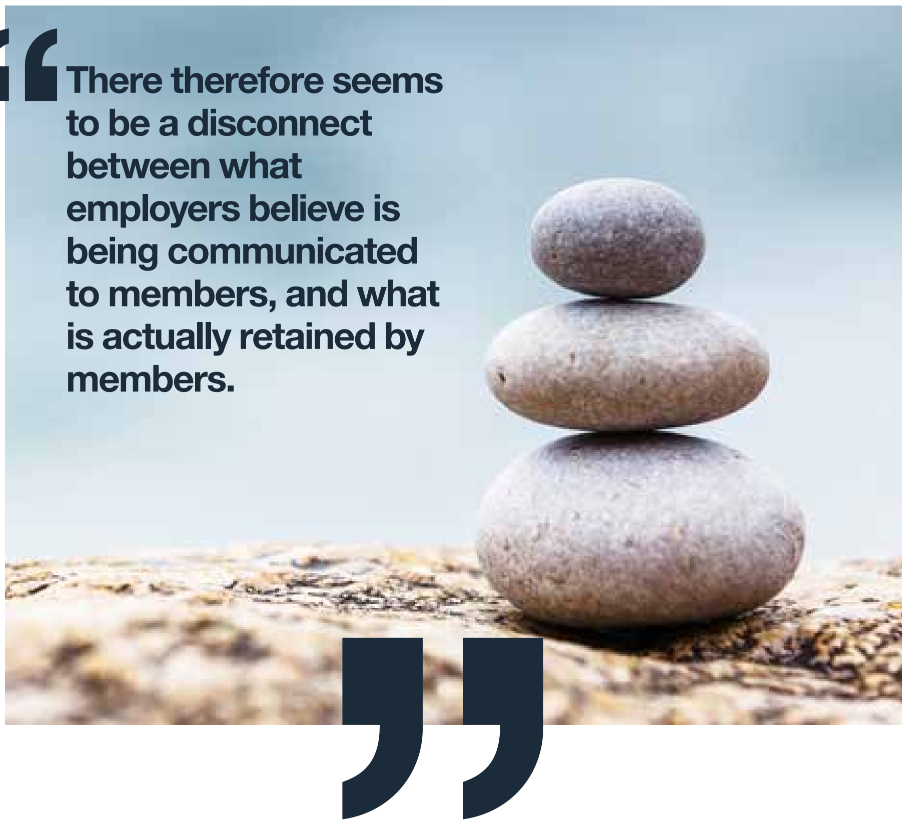
When considering how members experienced their induction programmes, 36% could not recall covering retirement benefits. Of those who did recall retirement topics covered during their induction programmes, the most common messages remembered were the importance of saving early (57%), and the tax benefits of saving through a retirement vehicle (53%). Only 19% of members recalled investment topics being covered in induction, and 12% recalled preservation being discussed. There therefore seems to be a disconnect between what employers believe is being communicated to members, and what is actually retained by members. Topics which resonated with members, and which were therefore retained, were "immediate" in nature. This speaks to the need for communication to be appropriately timed and relevant to members in that they believe an immediate choice or action needs to be made.

This is particularly important as we see that 72% of members will not revisit decisions that they made when they were first employed, with half of these members saying this was because they were satisfied with the decisions they made, and 24% feeling they were happy to have retirement benefits provided and were not particularly interested in the details. This is despite funds' efforts to provide members with information to ensure that they have adequate retirement provision – 58% of funds provide a Net Replacement Ratio statement (or similar ratio) to members yearly. In spite of this, we see a lack of understanding from members; 31% know their funds have a stated target pension, however only 66% know what this target is.

The impact of limited understanding on preservation

This lack of engagement and understanding extends to preservation. Of the 20% of members who had withdrawn from their retirement funds, 59% withdrew the full benefit in cash and a further 17% took part of the benefit in cash. Almost half of these members did not realise the level of tax that would need to be paid on withdrawal, and 45% did not realise the effect the withdrawal would have on their retirement outcomes. Pensioners seem to have felt the impact of their lack of understanding of their withdrawal even more severely, with 63% indicating that they do not fully realise the tax implication of non-preservation, while 61% did not fully understand the impact on their retirement outcomes.

This lack of understanding is not surprising given that only 1 in 10 employers provide specific communication on preservation, or lack thereof, prior to a member withdrawing from the fund. Given that the employee is leaving the employer, one may expect that very little is done to encourage preservation. However we also considered the new employer encouraging preservation when members are joining their fund. Only 1 in 4 employers have forms and procedures specifically designed to encourage members to bring previous savings into their new fund. This is surprising given that 70% of trustees believe that lack of preservation is the biggest mistake a member could make during their retirement savings journey.



Spotlight on women

This year we also threw additional focus onto female members to understand the subtleties females need to take into consideration during their retirement savings journey and how these considerations are being addressed.

Some of the factors which a female member may need to consider are longevity (on average women are expected to outlive men, and therefore may spend a longer period in retirement), maternity breaks (which may result in break in service and opportunities to withdraw from funds), and difference in salary level (the gender gap in South Africa currently stands at 35%). We uncovered that few female members have considered these issues with planning their retirement, and similarly few pensioners had considered these while savings and at retirement:

Considered ...	Members	Pensioners
Longevity	34%	49%
Maternity leave	11%	8%
Divorce / spouse passing away before you	10%	32%
Differences in salary level	15%	18%

While 98% of funds allow female membership in the fund to continue during maternity leave, only 1 of the 100 funds we surveyed tailored their communication for females by highlighting the issues discussed above. Again, specialised and targeted communication may enhance members' retirement outcomes by communicating to members relevant points in their retirement savings journey.

Where can we add value?

If we consider other industries and their communication strategies, in recent years we have seen micro advertising effectively being used to grab the individual's attention in a digital era where they are bombarded with many messages constantly. Shopper loyalty cards, which track members' purchasing decisions and tailor future communications based on those choices, have enhanced the value that retailers can add to shoppers while enhancing sales. Given the amount of information employers and retirement funds have on members, and particular insights that the employer holds on members' decision points during their retirement savings journey, is it not time that we start using this information more effectively to enhance members' retirement outcomes?

Standalone

Mind the gap

Trustees: Is your lifestage strategy aligned with your members' needs?

With the shift from Defined Benefit (DB) to Defined Contribution (DC) funds, many retirement fund members are finding themselves responsible for choosing their own investment portfolio and converting their retirement nest egg into a retirement income when they retire. This can be a daunting task, even for financially astute investors, with many retirement fund members finding the array of choice intimidating. Too much choice can be counterproductive, leading to decision avoidance.

Danie van Zyl
Head, Guaranteed Investments:
Sanlam Employee Benefits

The 2015 Sanlam Benchmark Survey highlighted that most of the retirement funds that offer member investment choice attempt to assist members by setting a default investment option for decision avoiders.

It again showed that Trustees favour lifestage solutions for their default investment options (61% of trustee choice / default portfolios). Lifestaging is a strategy that automatically changes a member's asset allocation as the member approaches retirement, usually switching to a lower risk strategy close to retirement.

The reasoning behind this is that, in the years just prior to retirement, a member has accumulated a significant fund value and often has one or more needs at this point of their retirement journey. They may wish to:

- Protect their fund value: Members have worked hard for many years to build up their fund value and do not want to risk seeing their savings reduce due to market downturns.
- Preserve their ability to secure a required retirement income.
- Ensure that their investment keeps pace with inflation.

It is therefore crucial to get the selection of the final end stage before retirement right for a lifestage model to be successful. The 2015 Benchmark Survey showed that, on average, funds with lifestage strategies start switching members to that final end stage 5 1/2 years before their members' normal retirement age. Just over half these funds (54%) believe that they are aligning their end stage with a member's annuity choice at retirement. 42% allow for more than one end stage depending on a members selected annuity choice before retirement.

Are members investing too conservatively?

Let's consider the 1, 3 and 5 year returns for some South African asset classes up to the end of December 2014, as well as the volatility these returns.

Investment	1 year	3 years (p.a.)	5 years (p.a.)	5 year volatility
JSE SWIX	15.42%	21.61%	17.78%	11.06%
SA Listed Property	26.64%	23.10%	21.37%	12.79%
SA Inflation linked bonds	11.15%	10.05%	10.83%	6.07%
Cash (STeFI)	5.90%	5.55%	5.86%	0.19%
Inflation	5.80%	5.58%	5.29%	

Volatility is the annualised standard deviation of returns around its average. A higher volatility means that an investment's value can potentially be spread out over a larger range of values. This means that the value of the investment can change dramatically over a short time period in either direction (up or down). A lower volatility means that an investment's value does not fluctuate dramatically, but changes in value at a steady pace over a period of time.

It is clear that members retiring at the end of December 2014 would have benefited handsomely by being invested mainly in South African equities and listed property over the last few years. However, it is also important to consider how volatile the returns for these asset classes are. Many members close to retirement tend to shy away from aggressive portfolios because of the fear that their retirement date could coincide with a downturn in equity and property markets. For those in more aggressive portfolios the question often becomes, do I have a lucky birthdate? I.e. would my retirement date (which is linked to my birthdate) coincide with a market up or down? Members that purchase a guaranteed annuity do not have a chance to make up for any such loss prior to retirement as they effectively lock in losses when they purchase a guaranteed annuity.

On the other end of the spectrum, members may end up investing too conservatively because of these fears. Bond and cash returns over the last 5 years starkly illustrate the opportunity cost that members endure by investing very conservatively. Cash may well provide returns that have the lowest volatility, but these barely keep pace with inflation.

Mind the gap!

A frequent criticism of some lifestage strategies is that these strategies forced members to disinvest from growth assets, like equity and property before retirement, and to keep the proceeds in cash – only for these members to reinvest in equity and property when they retire by purchasing either a with-profit or living annuity. The process of disinvesting from growth assets only to reinvest in the same assets after retirement is sometimes referred to as the "lifestage gap".

Worryingly, in this year's Benchmark Survey, 54% of funds with a lifestage strategy indicated that they invest a member's savings in cash in the final year before retirement.

The problem

The problem with this approach is two-fold:

01 The years prior to retirement are when a member has built up their largest fund value. It is therefore crucial that members aim to earn a decent return in excess of inflation over these years for a successful retirement. This is unlikely to be the case when invested in cash. Capital protection, if this is the concern, can be better achieved by investing in a smoothed bonus portfolio over this period. Compared to the earlier table, a smoothed bonus portfolio, such as Sanlam's Stable Bonus Portfolio, provided a 5-year return of 13.33% p.a. and a 5-year volatility of only 1.22% over the same period.

02 Cash as an asset class does not track the cost of either an inflation linked or a with-profit annuity at retirement. This means that how a member is invested prior to retirement takes no cognisance of what that member actually intends to do with their pension fund nest egg at retirement. For an inflation-linked annuity a more suitable choice would be to invest in a portfolio that aims to track the cost of an inflation-linked annuity. These types of portfolios invest mainly in inflation-linked bonds.

South Africa's version of a Defined Ambition Fund?

There has been much discussion in the UK regarding a retirement fund structure in between a DB and DC fund, one that targets a DB-type final salary related pension but do not necessarily provide any guarantees, hence the proposed name: Defined Ambition Funds. In South Africa, too, there has been a move towards once again providing members with some sort of targeted pension and then combining all the elements of fund design to work towards this goal. For example, 57% of funds have a stated targeted pension, 67% of these funds have aligned their default contribution rate with the targeted pension. 76% believe that their members can achieve their stated target pension when invested in the default investment choice, mostly a lifestage solution, over their working lifetime.

Lifestaging is a useful tool to assist the average member with investing for retirement. This is especially true for those who do not want to make any investment decisions themselves. For a lifestage strategy to stack the odds of a good retirement outcome in a member's favour the trustees need to pay special attention to aligning the strategy with their stated target pension and members' annuity options at retirement.

Two institutions that are crucial for our future success

Retirement reform has been with us since 2004 and we have become very used to change and talks about change.

Kobus Hanekom
Head: Strategy Governance and Compliance: Simeka Consultants & Actuaries

The biggest shift in our thinking over the past decade is arguably the realisation that it is the duty of the employer and the board of trustees to manage the entire retirement fund offering in such a way as to ensure good retirement outcomes for their members. It is no longer appropriate to merely comply with the fund rules and the law and direct members who have questions to speak to their financial advisors.

Authors Acemoglu and Robinson in the book Why Nations Fail, argue that of all the factors that make a country richer and poorer, the one that researchers discuss most is Good Institutions. They describe this as "the laws and practices that motivate people to work hard, become economically productive, and thereby enrich both themselves and their countries". They argue that "people need incentives to invest and prosper. They need to know that if they work hard, they can make money and actually keep that money".

We are not without issues in South Africa when it comes to our institutions. In March this year the headline in BusinessDay read: **SA given months to avoid junk status**. Standard and Poor was keeping an eye on the state wage bill, while Fitch said economic growth and a failure to boost potential growth was a negative rating trigger. A very worrying institution is the education system. Only 30% of the students who enter our system pass Matric and only 3% will go on to graduate. As we move from the information/digital age into the *shift age, these people will have to compete one-on-one with peers in the rest of the world where, in the OECD countries, 40% on average graduate.

A favourable retirement fund system

One institution, however, that we can be proud of is our retirement fund system. Towards the end of last year, the Melbourne Mercer Global Pension Index was released. The South African system, included in the index for the first time, did well on integrity. The parts where we did not do so well were sustainability and adequacy. We scored poorly on the net replacement rates for the median – income earners. As we all know, one of the key objectives of retirement reform is to improve leakage from the system and to encourage members not to take their benefits in a lump sum when they change jobs. Out of the 25 countries surveyed, South Africa ranked 15th overall. Our pensions system (both public and private schemes) scored 54.0, compared to the average of 60.6. Our retirement fund system is in good standing and compares very favourably with international systems.

In our industry, two institutions are crucial for the future success of our people: retirement funds and employers. As benefit consultants we will continue to help ensure that retirement funds are fit for purpose and offer appropriate defaults. Without the employers' assistance, however, member guidance and support strategies will not be successful.

Tackling financial discipline head on

Financial discipline is not taught in our school system. The youth unemployment rate is 48% and those who have jobs find themselves in a strong consumer culture – evidenced by the low national savings rate. For many, their first taste and experience of financial matters are when they join the workforce. Employers do well to offer retirement fund benefits, but we urge them to go one step further. If employers do not offer guidance and support, where in the system will we be able to help shape and form our youth and guide them to more sustainable practices? Each employee for example needs an emergency fund or a savings plan outside the fund that they can access for a specific purpose or in the event of a life crisis. With very little effort and cost an employer can implement a group plan that will remove many of their member's obstacles in the decision making process. What we have learnt from our studies in behavioural finance is that one should not underestimate the effect that barriers such as these can have on the savings rate, neither should we underestimate the value of having such a monthly saving deducted directly from the members' salary. Once it is paid into the member's account it has to compete with very many other needs and attractions and therefore has much less of a chance of success.

Employers can make a significant difference in the futures of the South Africans they employ. The next, relatively painless, step must be to investigate and implement one or more member guidance and support strategies.

*** Definition of the Shift Age: A time of transformation that will be regarded by future historians as one of the most significant periods in human history. The Shift Age is one of those inflection points when much of humanity will change how we live, how we think, how we interact with each other and what we do (David Houle, Entering the Shift Age)**

What every member should know about long term investing

As a client, you may have heard me say "the secret to investing is addressing the right risk at the right time" on more than one occasion. You may also have heard me say that the "right risk" to address for a young member is that of insufficient investment returns over the long term as this has the biggest impact on a member's ability to retire in a dignified manner. The question is how to get the message across to our younger members whose energy and attention is focused elsewhere? Consider this angle.

Willem le Roux
Head, Investment Consulting:
Simeka Consultants & Actuaries

"I think if they can simplify it, especially for the younger person, it all seems like gibberish sometimes. If they can find a way to simplify it and find a way to stress the importance of it. As a 19 or 20 year old, you don't grasp the importance of it until you're maybe a bit older."

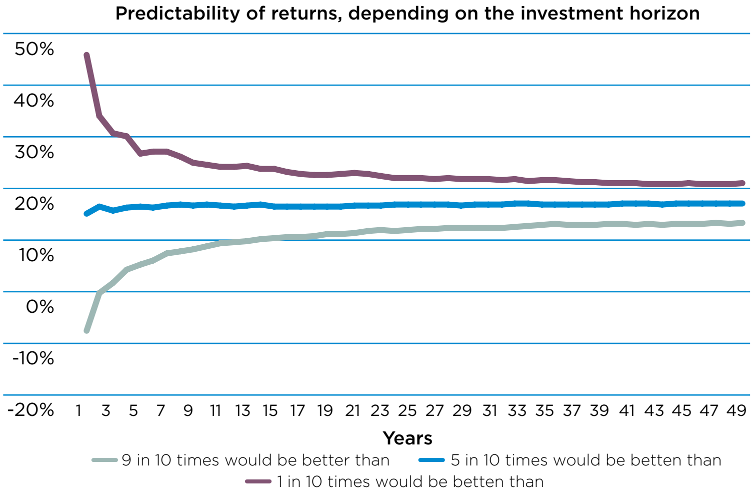
Young member focus group, Sanlam Benchmark Survey 2015

Equity markets yield the best returns over the long term

To get the best returns over the long term, you have to invest in an aggressive portfolio such as a lifestage strategy. When you do this you, need to bear in mind that equity markets can be quite volatile and may give negative returns in the short term from time to time, as most keen investors will attest to. This is perfectly normal and is simply the nature of the markets. Despite this, the markets will still give you the best returns over the long term. You may think of the old saying that goes "if you can't take the heat, stay out of the kitchen". However, the nice part about long-term investing is that once you put your assets in the proverbial oven / the market, you are free to leave them alone and walk away. In fact the longer you leave them alone, the better. Here's why.

Investing is a long-term game

The chart below shows the predictability of investment returns, based on a simple statistical model using recent market returns:



The blue line shows the middle of the road return for an investor with an investment horizon of 1 to 50 years. The grey dotted line shows a kind of "worst case" scenario – 9 out of 10 times, the outcome would be expected to be better than this. The red dotted line shows the "best case" scenario – only 1 out of 10 times could the investor expect to perhaps do better than this. What this graph tells us is that the longer the investment horizon, the smaller the spread between the worst case and best case scenarios. So the longer the term of your investment, the more likely you are to get a good positive return. The shorter the term, the greater the risk of loss.

Over one or two years the expected returns in the model varied between -10% and 40%. The longer term returns only varied between 13% and 21%, which is a great result for any long term investor. In reality the returns may vary even more greatly, as was seen in the global financial crisis in 2008, where returns were almost -50% over a year. Nonetheless, as the investment term lengthens, the expected returns still converge to a narrower range. South Africa's long term history shows that the returns on shares have been around 7% above inflation. Therefore based on our current level of inflation, a long-term average return of around 13% per annum appears reasonable.

Aggressive portfolios yield the best long-term returns

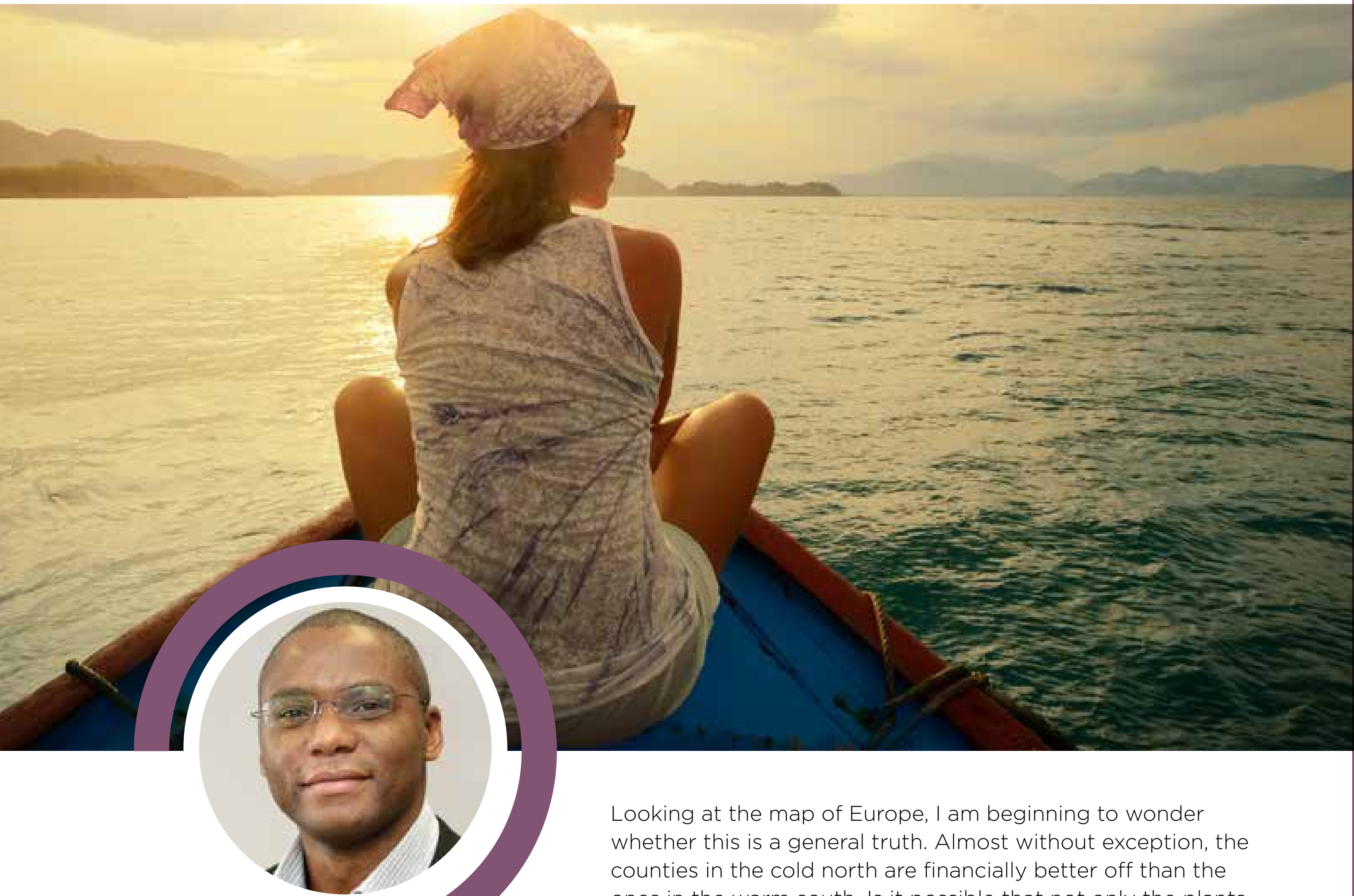
In a nutshell, an aggressive portfolio offers the best possible return over the long term. Yes, during the shorter term the returns are volatile, but as an investor, you only run the risk of losing your money should you terminate the investment at that time. One might say that when you are invested for the long-term, the short-term volatility and risks are more part of the background noise – unless of course you sell and crystallise (lock in) your losses at that time.

The long-term investment loves the heat!

If we return to our image of the heat in the kitchen, you may think of the kitchen as too hot (if the returns are that unpredictable) and that you might get burnt. However, your long-term investment loves the heat. All you have to do is get your investment in the oven and leave it to do what it does best. The hard work is to decide on an appropriate investment strategy, and then all you need to do is leave it alone until the time comes to think about your phasing options six years before retirement. So think of your retirement fund credit as a paint job at the back of your house (something best left alone!) and rather go and catch up with your friends. It appeals to the lazy genes in all of us – right?

The Day One strategy in action

Last year we reported on a study done by the Prudential in the USA in which they concluded that our brains are not hard wired to save for retirement, and that when confronted with a short term need such as the need to buy new shoes, the shoes will win every time.



Freddy Mwabi
Actuarial Specialist: Simeka Consultants & Actuaries

Looking at the map of Europe, I am beginning to wonder whether this is a general truth. Almost without exception, the counties in the cold north are financially better off than the ones in the warm south. Is it possible that not only the plants and the animals but also the humans living in the northern countries – where it freezes over in winter – are hard wired to prepare for winter? Is it possible that they are endowed with a greater sense of urgency and purpose as a result? In the warm south, if you cannot get around to something today there is always tomorrow – right?

The 2015 Sanlam Benchmark

When I studied the 2015 Sanlam Benchmark Survey results, the one thing that stood out for me was the contrast between the attitudes and behaviours of the young compared to the retirees. It was as if the young interviewed were more apathetic about their retirement plans than we have come to expect, whereas the retired persons interviewed were comparatively more disciplined and prepared.

The young member focus group (23 to 35): This group was included in the survey this year to explore qualitatively, issues around their financial well-being. The results were a little alarming. Especially as it became apparent that the single members and childless couples were easy spenders who believed that "spending on me" was a reward for hard work. Securing the future as not a big priority "I have considered saving but my deductions are crazy from work, we have benefits, our pension is a lot of money I believe. It's good for the future but I just don't think its realistic [saving] with my current standard of living. OK yes, I will have a nice pension fund when I decide to resign or whatever but then I want money now."

The pensioner group: This group was in surprisingly good shape. Of those who took a lump sum benefit in cash, almost 40% reduced their bonds and 35% reduced their short term debts. Just under 80% were living in their own home which was fully paid. Almost 60% had no debt. Of those that had debt, only 5.8% of their income on average went towards servicing debt.

These groups were both reasonably representative of the funded population. What they had in common was the advice they offered on how to improve the savings culture. *"If they can find a way to simplify it and find a way to stress the importance of it. As a 19 or 20 year old you don't grasp the importance of it until you're maybe a bit older."*

It appears that our natural sense of purpose and urgency to provide for our futures falls short. We have to implement additional structures and disciplines to assist and guide South Africans to provide for their retirements, such as the Day One strategy.

The Day One strategy

This is a method to get in front of and get the attention of employees at that point in their careers when we have the most leverage to change behaviour and teach new habits – on Day One of their careers. At that point we connect with them in a way and in a language they understand – with a short but powerful audio visual message. Then they participate and run the projected pension calculator so they can see for themselves what their projected pension ratio is and how to improve it.

In the pilots we ran during 2014, HR reported that they felt much more involved and able to assist. Members who experienced both the old and the Day One induction strategies reported that they felt more informed and empowered to take charge of their retirement plans. More importantly, however, they had more positive feelings about their employer and their fund and were more convinced that their best interests were being served.

As an employer you can make a significant difference to the futures of the South Africans that you employ. If you do nothing else this year, take the next logical but relatively painless step and implement one or more member guidance and support strategy. Experience the benefits for yourself and help us develop and improve them.

Engaged Employerism

All of us at some point in our lives have attended an induction of sorts, usually conducted by HR.

The information provided at this stage is usually limited to:

- who we are;
- what we do;
- what we have achieved;
- what we expect of you; &
- why we think you'll like working here.

The new employee is typically given a stack of paperwork to fill in for medical aid options, various allowances, insurance options and decisions on their retirement funding. Previous Benchmark research has highlighted that people are ill-equipped throughout their careers to make crucial financial planning decisions and yet we entrust these ill-equipped individuals at a particularly stressful point in their lives, to make decisions that materially affect their quality of life building up to and through retirement. We also know that employees struggle to remember what was covered in these inductions, they hardly ever revisit those initial decisions, and they do far too little until it is far too late to make a material difference.

As such, we need take a stronger look at understanding the challenges that employees face and to identify practical measures to de-risk their retirement funding journeys.

Viresh Maharaj
Chief Marketing Actuary: Sanlam Employee Benefits

The role of systems thinking

Systems thinking is an approach to problem solving, which views "problems" as parts of an overall system, rather than reacting to specific aspects. Systems typically consist of components, linkages, feedback loops and emergent behaviours.

Taking a system's view requires that we acknowledge that the retirement funding system is just one of many systems that an employee belongs to. In taking this view, our hypothesis is that the employer is best positioned to influence the retirement outcomes of its employees as it:

- Determines the structure of the retirement funding mechanism;
- Is in a powerful position to provide contextual information to employees;
- Has the infrastructure to connect employees with the fund; &
- Is viewed by the employees as the source of truth.

PWC's 2015 Financial Wellness Survey revealed that, in the US:

- 45% of employees found their financial situations to be stressful;
- 35% experienced a YoY increase in financial stress;
- 20% were distracted at work due to financial stress; &
- 37% spent 3 hours or more dealing with financial stress.

These findings combined with other academic research has found strong links between financial wellness, increased productivity and reduced absenteeism. This creates a compelling case for employers to influence their employees' financial wellness. Retirement funding is a core pillar in this process.

Induction reinvented

Imagine if once all the niceties have been covered, that the induction took a different slant?

"Ladies and gentlemen at the end of each month we're going to pay your salary into your bank account. This will be the net amount after tax deductions, medical aid and provision for retirement.

This is your money and you are free to spend this in any way you like ...

But we aware that statistically, 96% of the people in this room won't build any wealth at all ... in fact the opposite will happen ... over 80% of you will carry a significant amount of debt for most of your working life. As a result:

- For the next 10 to 40 years, half of you will find your financial situation to be a constant source of stress
- 6 out of every 10 of you will not be able to maintain your standard of living into retirement.
- Half of you will only seek help when it's too late to affect your retirement outcome.
- Most of you will work every day until you retire to buy things you don't need with money that you don't have while unknowingly sacrificing your future.

Your salary is yours and you are entirely free to spend it as you like ...but as your employer, we believe that yours is a future worth saving and because of that we have set you up for success by taking your financial wellness seriously."

Another component where the **employer** can influence the outcome of the system is when an employee resigns or retires. Currently, about half are not informed of the effect of cashing in their pensions on their financial wellness nor do they understand the tax implications of doing so. They simply receive a form. This is where an employer can have a significant impact on the future of an employee by putting the right communication and tools at their disposal.

As an example, consider the impact that can be made by adding a visual health warning (similar to those on cigarette boxes) to the forms to help employees to make informed decisions. For instance:

- Your fund value is R1,000,000; &
- If you withdraw, you will pay **R207,000** in tax through to SARS;
- You are 45 years old; &
- In 20 years at 10% interest pa, this R207,000 could be worth approx. **R1,400,000.**

Are you willing to sacrifice **R1,400,000** of your lifetime wealth?

Creating top of mind awareness

Another point in the system is at benefit review stage … we know that very few employees ever review their decisions or even check their fund values when charting a course for decent retirement outcome. Benefit statements are provided but in a context where mathematical and financial literacy is poor. Humans are visual creatures and respond well to colours, so perhaps we could consider printing statements on different coloured paper to draw attention to critical issues:

In red

Your net replacement ratio is **20%**. You will not have enough money in retirement …

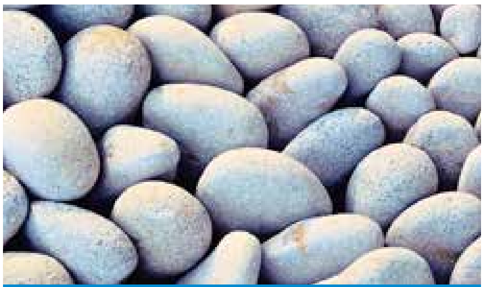
In amber

Your net replacement ration is 50%. You are at risk of not having enough money in retirement …

In green

You net replacement ratio is **80%**. You are on track ...

An annual benefit statement doesn't make retirement funding real for employees. We need to be more innovative in the way we engage employees in their retirement funding journey. This could be as simple as popping an sms to each employee for contributions, costs and risk premiums deducted, and fund balances. This makes it more real for employees. Make them start feeling the impact of the choices they make so that they can actively review them; start them on a journey to a better future.



The critical role of HR

Taking a systems view highlights a problem in the retirement funding system because we are now able to appreciate that HR forms part of a separate system that has a profound effect on retirement outcomes. A systemic issue potentially affecting HR's motivation to influence retirement outcomes is that the financial wellness of employees is not a measured deliverable for HR. As such, it does not carry the necessary weight when time, effort and budget are allocated. Perhaps we need to start measuring the efficacy of HR in helping employees get to a better day one of retirement. What if HR professionals had performance indicators relating directly to the average replacement ratio of their employee base? What if companies had to report on the financial wellness of the employees in their sustainability reports? The different systems need to work better together in a reinforcing loop that result in a WIN-WIN-WIN situation – for employees who will build greater lifetime wealth, for employers who benefit from more productive employees and for a South Africa that will benefit from greater wealth creation for its citizens.

Umbrella Survey

Executive Summary

This is the seventh consecutive year that we've undertaken a separate study on umbrella funds, and as a result we've now accumulated sufficient history to meaningfully analyse the emerging trends. Once again, we surveyed 100 employers that participate in umbrella funds. However, when appreciating some of the changes in the sample, we caution you to be careful about drawing conclusions on trends where 25% of the respondents have belonged to an umbrella fund for less than 3 years.

Mike O'Donovan
Chief Executive Officer:
Sanlam Umbrella Solutions,
Sanlam Employee Benefits

The survey attempts to be representative of the entire South African umbrella fund market. Clients of the five major sponsors in this market represented 80% of the participants, with the balance of clients being spread between other market players.

Consolidation trend growing

Larger, well established employers continue to join umbrella funds, with the average sub-fund among the respondents this year reporting 558 members and R275 million in assets under management. The trend of larger funds joining umbrella arrangements is expected to continue and is perhaps a further indication of the continuing and rapidly accelerating consolidation trend in the retirement funds industry.

Out of the 100 standalone funds surveyed in the 2015 Standalone Fund Survey, 51 indicated that they have considered moving to an umbrella fund arrangement. The top three reasons given for employers joining an umbrella fund were related to:

01 cost savings;

02 administrative convenience; and

03 less trustee fiduciary risk.

A key issue that we had to decide on in conducting the umbrella fund survey was who would be the right person to interview per sub-fund. For standalone funds, the appointed principal officer would be the natural person to interview, but unfortunately no such position exists at sub-fund level within umbrella funds. We have tried to identify the key person responsible for retirement fund issues within each of the participating employers, and in each instance have interviewed this person. In some cases, the sub-funds' appointed consultants were present at the interviews.

Any survey naturally analyses the perceptions and the understanding of the interviewees, and will usually not give the same results that come from directly analysing the source data. This is a particular concern for us with umbrella funds, and there appears to be some evidence that the interviewees are not as au fait with all the technical issues as are the principal officers of stand-alone retirement funds. But analysing perceptions and understanding is nonetheless very powerful, and we believe this should present very good insights into the workings of the umbrella fund industry.

The results of the survey were analysed further within the following topic summaries covering Contributions, Investments, Insured Benefits, Governance, Advice, Retirement and Special Topics.

Cost awareness still not adequate

There does appear to be evidence suggesting that there is an increased awareness of costs as well the need to save adequately for retirement, although an overall understanding of the cost complexities remains unsatisfactory.

Only 20% of the respondents indicated that they conducted a cost comparison exercise annually, which is down from last two years (41% in 2014 and 32% in 2013) and in line with the 21% from 2011. 31% indicated that they have never sought comparable quotes from other umbrella funds, which is concerning. We believe it is critical that the industry focuses attention on facilitating a better understanding of costs by clients to ensure that a truly competitive private sector umbrella fund market, underpinned by consumer choice, can thrive and grow.

Increase in contribution rates

Total contribution rates have been steadily increasing over the previous five years (2015: 15.2%; 2014: 14.%; 2013: 13.7%) and more members are being given the flexibility to choose their own contribution rates. This, together with the containment of insured benefit and operating costs, has resulted in a slight improvement in the average contribution made to retirement savings. This has increased to an average of 11.9% of salary, up 1.4% from last year.

There is steady upward trend of more employers offering individual member investment choice, but at the same time they report that a greater percentage of members remain invested in the Trustee default portfolios than in previous years.

Respondents estimated that only 27% of their retirees would be able to retain their current standard of living. Last year employers estimated 26% of members would be able to retire comfortably (2013: 18%).

Inadequate savings persists

The savings levels are still not sufficient to secure adequate pensions upon retirement for members (even assuming members preserve retirement savings when changing jobs, noting that inadequate preservation is certainly the norm in South Africa), and this remains a very considerable challenge for both the retirement funds industry and the country as a whole.

Only 39% (down from 49% in 2014) of respondents indicated that their sub-fund had a default strategy to encourage preservation and employers estimate that 78% of members took their benefit in cash when their employment with the participating employer terminated. Employers are increasingly shifting the responsibility from the employer to the member to encourage preservation, which is a concerning trend.

There also appears to be very little attention given by umbrella fund sponsors and employers to retirement issues specific to female members.

Umbrella Survey

Contributions

Remuneration packages are based on total cost to company for 65% compared to 64% of sub-funds in 2014.

Pensionable earnings (PEAR) is that portion of total remuneration which is pensionable. This is typically expressed as a ratio. Just over a quarter (28%) of sub-funds indicated that their PEAR percentage is less than 70% with one in five respondents saying their fund's PEAR is more than 90%.

by

Mike O'Donovan
Chief Executive Officer, Sanlam Umbrella Solutions

and

Chris Jacobs
Head, Product Development: Sanlam Umbrella Solutions

- The average employee contribution as a percentage of salary is **6.4%** (2014: 5.6%)
- The average employer contribution as a percentage of salary is **8.8%** (2014: 8.5%)

Half, **51%** (2014: 41%) of the sub-funds allow members to select their own level of contribution whereas only **33%** (2014: 25%) permit members to elect their employers' level of contribution.

A third, **33%** (2014: 37%) of respondents revealed that the employer pays a fixed contribution plus the cost of administration, while **60%** (2014: 55%) indicated that the employer pays a fixed contribution only (i.e. total cost to company - no additional costs).

Cost of administration

The average cost of administration as a percentage of salary is reported as approximately **0.8%** (2014: 0.8%). Similar to the BENCHMARK Surveys conducted in 2014 and 2013, this figure is lower than the comparable cost for standalone funds.

An increase in total contributions of **1.1%** (2014: 0.4%) from last year and a slight reduction in expenses has resulted in an increase in the total provision for retirement of **1.4%** (2014: 0.3%)

	2015	2014	2013
Employee contributions	6.4%	5.6%	5.6%
Employer contributions	8.8%	8.5%	8.1%
Death benefit premiums	(1.3%)	(1.6%)	(1.6%)
Disability benefit premiums	(1.2%)	(1.2%)	(0.9%)
Operating costs	(0.8%)	(0.8%)	(0.8%)
Total provision for retirement	11.9%	10.5%	10.4%

Just under half (49%) of sub-funds stated that their umbrella fund itemises separately the cost of administration, which is significantly lower than the 66% in 2014. This year 40% of funds (significantly up from 21% in 2014) stated that the administration fee includes all other expenses. Also, **7%** (2014: 9%) of funds stated that they pay for additional expenses not specified in the administration agreement.

The majority, **67%** (2014: 66%) of sub-funds stated that trustees appropriately manage other expenses, such as FSB levies, auditing fees and trustees' reimbursements, via formal budgeting and approval processes.

These expenses are either:

- deducted from member accounts: **30%** (2014: 47%), or
- recovered from a contingency reserve: **29%** (2014: 14%), or
- included in the administration costs: **22%** (2014: 16%) of sub-funds.

The contingency reserve account is expressed as a rand value per member per month for **48%** (2014: 57%) of umbrella funds, as a percentage of salary for a further **21%** (2014: 29%) of funds and a further 21% of respondents indicated to be unsure how the contingency reserve account levy is expressed.

20% (2014: 41%) of employers seek comparable quotes from other umbrella funds on an annual basis, while a further **39%** (2014: 34%) do so at least every 5 years. It is slightly concerning that **31%** (2014: 18%) of employers have never reviewed the costs and benefit structure at all.

Umbrella Survey

Investments

A clear majority of 80% (2014: 74%) of employers surveyed offer member-directed investment choice.

Where member-directed investment choice is made available by the umbrella fund, 5% (2014: 19%) of sub-funds do not offer this facility to any of their members. An average of 7 investment options are offered to members which is very much in line with previous years.

The majority at **95%** (2014: 88%) are either very satisfied or satisfied that the umbrella fund's member investment choice range is sufficiently diverse to meet the needs of all their members.

It seems that funds are automatically invested in 'in-house' investment portfolios that are associated with the sponsor for **45%** (2014: 40%), whereas an estimated **10%** (2014: 10%) of employers are unsure whether this is the case.

Respondents claimed that on average **79%** (2014: 70%) of their membership were invested in the Trustee choice or default investment option.

The Trustees choice / default portfolio was classified as follows:

Lifestage	59%
Guaranteed / Smoothed bonus	23%
Balanced active	15%
Balanced passive	5%

Investment portfolios by asset managers other than the sponsor or its associated companies are on offer to 69% of participating employers, while 12% cannot confirm whether this is being offered.

Investment performance fees are charged to 49% of participating employers with 14% being unsure if this is the case. Most respondents (76%) indicated that the basis on which investment performance related fees are charged is fair and reasonable.

Two thirds (66%) of respondents provide a combination of both passive and active investments, while 22% have only active investments, and 7% have passive investments only. Where passive investment choice is available, 50% of respondents indicated that cost savings was the key driver for selecting passive investments.

One third (31%) of the sub-funds who are active investors, annually interrogate their own company's BEE scorecard and management as a benchmark, a further 25% interrogate it less frequently, while 37% have never done it.

49% of participating employers (2014: 36%) expect investment returns in 2015 to be the same or similar to the previous year, while **40%** (2014: 39%) expect a positive return, but poorer than previous year. A further **9%** (2014: 22%) expect investment returns to be better than 2014.

Performance measurement

The frequency that investment performance versus benchmarks are measured formally by the participating employers and the umbrella funds is as follows:

	2015		2014		2013	
	Employer	Umbrella Fund	Employer	Umbrella Fund	Employer	Umbrella Fund
Monthly	5	26	6	21	8	19
Quarterly	33	38	29	30	30	41
Biannually	13	8	22	16	18	8
Annually	30	16	30	18	27	18
Less often / Unsure	19	12	13	15	17	14

Life stage investing

In a lifestage vehicle, members are switched to less volatile portfolios in the period prior to normal retirement age, which is commonly referred to as the phase-out period. Slightly more than half, **56%** (2014: 53%) of employers have implemented a lifestage vehicle. The most common phase-out periods is 5 years (for 50% of respondents) and 6 to 7 years (for 21% of respondents).

The preferred type of annuities that the end stage allow for are:

- Inflation-linked annuities: **45%** (2014: 47%)
- Guaranteed annuities (level or increasing): **39%** (2014: 53%)
- Living annuities: **36%** (2014: 53%)

Only 43% of respondents reported that their life stage investment strategy was explicitly aligned to their annuity strategy.

Most, **89%** (2014: 91%) of employers provide members with advice when they enter the phase out period of the life stage model.

Umbrella Survey

Insured Benefits

Risk Benefits – Umbrella Funds

Most employers, **60%** (2014: 66%) provide risk benefits as part of the umbrella fund package, and **25%** (2014: 23%) provide risk benefits by way of a separate scheme.

Some **11%** (2013: 9%) provide risk benefits both as part of the umbrella fund package and as a separate scheme.

Slightly more than half, **55%** (2014: 48%) of the employers selected umbrella funds whose insured benefits are automatically underwritten by an 'in house' insurance company associated with the sponsor.

The majority, **87%** (2014: 95%) of employers are satisfied that the risk benefits product range was comprehensive and appropriate to satisfy members' requirements.

The most popular risk benefits provided as part of the umbrella fund package are death benefits at **100%** (2014: 100%), disability benefits at **84%** (2014: 95%) and funeral benefits at **67%** (2014: 64%).

- The average lump sum death benefit is 3 (2014: 3.1) times annual salary.
- The average lump sum disability benefit is 2.1 (2014: 2.4) times annual salary.

Funeral cover of up to R10 000 was provided by some **30%** (2014: 55%) while a further **58%** (2014: 37%) selected a level of funeral cover up to R20 000.

Risk Benefits – Separate Schemes

The most popular risk benefits provided under separate risk schemes are disability benefits by **92%** (2014: 79%), death benefits **80%** (2014: 77%), and funeral benefits **73%** (2014: 74%).

- The average lump sum death benefit is 3.4 (2014: 3.5) times annual salary.
- The average lump sum disability benefit is 2.6 (2014: 3.5) times annual salary.

Almost all funds and employers offer funeral benefits these days. Participating employers in umbrella funds are no different, with **38%** (2014: 40%) selecting a level of funeral cover up to R10 000. A further **55%** (2014: 32%) of employers select a level of funeral cover up to R20 000.

Umbrella Survey

Governance

Almost two thirds, **59%** (2014: 49%) of respondents cite that at least 50% of the board of trustees are elected by the members. An overwhelming majority, **71%**(2014: 61%) of respondents believe that at least some if not all of the member-elected trustees are completely independent of the umbrella fund sponsor. That the election process is fair and democratic is the view held by **72%** (2014: 61%) of respondents and 69% of umbrella funds allow member representation at participating employer level (down from 77% in 2014).

A forum, such as an annual general meeting, where member representatives can question the trustees on their performance and plans is in place for 76% of respondents (up from 69% in 2014).

Umbrella Survey

Advice

35% of consultants/brokers (2014: 31%) are remunerated by statutory commission and **36%** (2014: 24%) negotiate a fee with the employer.

Many employers at **63%** (2014: 64%) are of the view that the level of remuneration is commensurate with the consulting services provided.

An estimated **19%** (2014: 29%) of respondents did not know how their consulting fee was recovered.

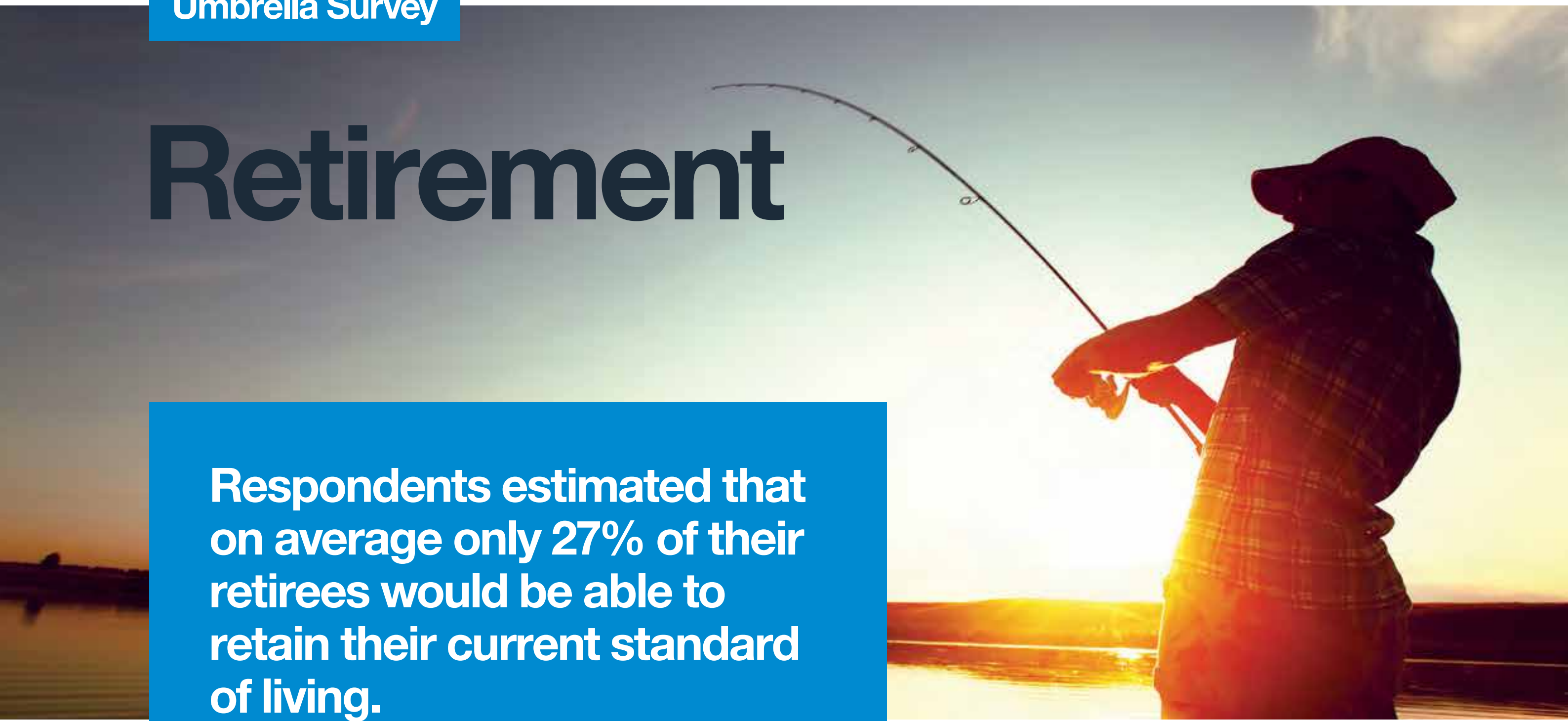
More than two thirds at **69%** (2014: 69%) of sub-funds have a formalized strategy for rendering financial advice to members on exiting from the fund.

When considering all the aspects of retirement fund administration, the following attributes are viewed by employers as the three most important ones:

Paying claims timeously	**70%**
Loading and investing contributions timeously	**58%**
Transparency of costs	**39%**

Umbrella Survey

Retirement



Respondents estimated that on average only 27% of their retirees would be able to retain their current standard of living.

From the research findings it has become apparent that some employers – **68%** (2014: 78%) are still concerned with how members utilize their retirement benefits. But this concern is dwindling with **90%** (2014: 86%) stating that they no longer wish to have further involvement with members post retirement.

Only **45%** (2014: 35%) of employers tend to have a target pension (normally expressed as a Net Replacement Ratio – NRR NRR) or Projected Pensions Ratio (PPR) for trustees to work towards. Of these employers, **84%** (2014: 71%) indicated a default employer and employee contribution rate that is aligned with the stated target pension. It is comforting to observe that **76%** (2014: 78%) of these employers are targeting a replacement ratio of between 70% and 75%.

In assisting members with planning for their retirement, employers deploy the following tactics:

- **51%** (2014: 42%) provide members with access to a Net Replacement Ratio (NRR) or similar calculator
- **49%** (2014: 45%) provide each member with a NRR statement each year/regularly

Employers consider the following annuities as most appropriate for an 'average' member:

	2015	2014	2013
Inflation linked annuity	25%	19%	35%
Living annuity	24%	30%	30%
Combination of different annuities	21%	20%	-
Guaranteed annuity (level or increasing at a fixed percentage)	20%	23%	15%

Most employers at **80%** (2014: 72%) are aware that National Treasury is proposing that every retiring member be enrolled in a default annuity product as selected by the Trustees of the umbrella fund, unless the retiring member opts for a different post-retirement product.

Half, **54%** (2014: 34%) of employers stated that the Trustees of the umbrella fund have either determined an appropriate default annuity product for their members, or are in the process of putting one in place. While others report that this will be done within the next 24 months, it is interestingly to note that **23%** (2014: 20%) are unsure of what is being done.

Of the **25%** who have already selected a default annuity product, 32% selected the guaranteed annuity and 28% opted for a combination of different annuities. A further 8% selected a living annuity and 8% provide an inflation-linked annuity.

The following are considered the biggest mistakes members make when saving for retirement:

	2015	2014
Not preserving retirementbenefits and therefore having too little investment or insufficient time to save for retirement	69%	70%
Member apathy, i.e. not taking retirement planning seriously or leaving it too late to start saving for retirement	64%	78%
Low levels of contribution rates in retirement savings	44%	44%

Umbrella Survey

Special Topics

It is common for South African employers to be susceptible to frequent and extended periods of absence from work/ unemployment due to industrial strike action, suspension without pay as a result of a disciplinary process and maternity leave. The effect of this was experienced by 13% of the sub-funds participating in the survey.

In these instances, 77% of employers/sub funds continue to pay the death and disability premiums, while a further 46% allow the members' retirement savings to remain in the sub-fund, in portfolios they were invested in prior to the absentee period.

It was also reported by 14% of the sub-funds that the umbrella fund sponsor had in the past discussed retirement issues specific to female members' taking extended leave of absence during maternity (or any other period) where the salary is reduced in accordance to an employment contract. However only 6% had actually implemented changes to the sub-fund as a result.

Early withdrawal from retirement funds remains a contentious issue for employers. On the other hand, employees are conflicted with the choice of preserving their retirement benefits or cashing in the benefit to settle debt or utilise it to cover living expenses. To this end, 63% of employers encourage new employees through general information on how to make informed decisions when confronted with the option to preserve their withdrawal benefits in the employer's sub fund.

Employers estimate that 78% of members take their withdrawal benefits in cash.

More than half of Employers increasingly believe that it is the members' responsibility to preserve their withdrawal benefit (2015: 56%; 2014: 55%; 2013: 24%) and far less the employer's responsibility (2015: 51%; 2014: 61%; 2014: 73%).

This is a concerning trend. While the advent of the defined contribution environment has meant the members have had to take more personal ownership for saving adequately for retirement, the role of the employer, supported by skilled advisors and commercial sponsors, in assisting their employees in achieving favourable retirement outcome requires more attention.

Are Umbrella Funds the End Game?

Futurist, David Houle, authored "Entering the Shift Age", where he addressed the various ages of man. He looked back over evolution and noticed that each successive age happens faster than the one before.

The retirement fund industry in South Africa originated in the mid 1900's, and was characterized by the initial predominance of defined benefit funds, with the majority of South Africans excluded from retirement fund provisions. Towards the latter part of the 1900's, we saw a shift from defined benefit funds to defined contribution funds and, along with it, the introduction of retirement funding provisions available to all South Africans, predominantly driven by labour organisations.

Conrad Roper
Business Development
Sanlam Employee Benefits

Shakeel Singh
Executive: Client Relations
Sanlam Employee Benefits

The advent of umbrella funds

From the late 1990's to early 2000, we've seen a growing trend of smaller, independent retirement funds consolidating into umbrella funds, due to the high cost of providing retirement fund solutions to members. Umbrella funds were designed to offer employers suitable, cost effective retirement fund arrangements, and a limited governance burden. The shift to umbrella funds has picked up significant momentum in the last 10 to 15 years and we have seen the number of occupational stand-alone retirement funds decrease significantly, evidenced by reports from the Financial Services Board on this matter in recent years.

The Benchmark Survey for 2015 tells us that the following factors influenced the decision of stand-alone funds to move to an umbrella fund:

- 57% lower costs
- 46% ease of admin
- 24% focus on core business
- 45% less fiduciary responsibility

The shift to umbrella funds is happening significantly faster than the shift that took place from defined benefit to defined contribution.

However, it is important to keep sight of the primary objective of a retirement fund (umbrella fund or stand-alone): to provide a suitable retirement outcome for members. 62% of pensioners surveyed in this year's Benchmark Symposium were unable to maintain their standard of living after retirement. It is well documented that the lack of preservation is the primary reason for this, and secondly, insufficient contribution levels and incorrect investment strategies.

Improving the retirement outcomes of our members

In keeping with this year's theme, "A future worth saving" it is incumbent on all stakeholders in our industry from trustees, employers and service providers to ensure that one of the most important messages is conveyed to our members: providing sufficiently for one's retirement requires sufficient contributions, and an appropriate investment strategy for a long-term period in excess of 25 years. If this basic premise is followed, we will significantly improve the retirement outcomes of our members.

Retirement fund arrangements are the most effective vehicles to assist members in achieving an appropriate retirement fund outcome. We should be asking the most important question, what type of fund will contribute the greatest towards helping our members achieve the best retirement outcome?

While cost, governance, reliability and sustainability are very important evaluation criteria, we should also focus on educating members and empowering members to plan for a comfortable retirement. The focus needs to be on member service and member education, starting right from Day One of employment. Ensuring members are well educated will mean a significant improvement in the likelihood of a positive retirement outcome.

Comparable umbrella fund quotations is important

An interesting Benchmark Survey finding is that 42% (53% in 2014) of participating employers seek comparable umbrella fund quotations at least once every 3 years. One could argue that the drop in this percentage is a healthy development – perhaps more employers are satisfied with their current providers' value proposition and see little need to consider alternatives. An even starker statistic is that no less than 80% (79% of employers) of participating employers have never actually considered changing umbrella fund providers. On the other hand, these statistics could also mean that participating employers are not fulfilling their duty to their members of keeping abreast of the latest industry product developments. We believe that seeking a comparable umbrella fund quotation at least once every 3 years, and seriously debating the matter within management committee meetings, is the minimum requirement from a good governance perspective.

So are umbrella funds the end game?

The future of the retirement fund industry might be significantly different in the next 20 to 30 years but for now, umbrella funds seem to offer a suitable retirement funding vehicle for all South Africans. Umbrella funds offer employers a relatively cost effective way of providing retirement benefits for their employees, by outsourcing trustee responsibilities, minimizing the administrative burden and passing the cost onto members. In the current environment, we will more than likely see the shift to umbrella funds continue, and ultimately only a few hundred stand-alone retirement funds may remain. In all likelihood, the stand-alone retirement funds that will remain are the ones with sufficiently large memberships, making it economically viable for them to continue.

However, umbrella funds are not without their limitations. Perhaps we need to ask ourselves, is our entry into the "Shift Age" defined by the manner in which employers help employees provide for their retirement?

Active Member

Care enough today to have enough tomorrow

The chance to actively participate in decisions and make choices regarding one's retirement planning is an enabling and empowering opportunity which should be embraced by individuals. It can greatly influence the outcome of one's retirement planning to ensure that the result ultimately suits every individual.

Karin Muller
Head, Sanlam Growth Markets

In our 2014 survey we learnt more about the so-called "on boarding" experience and the nature of new members' decision-making when they join a fund. It showed that decision-making lacks sufficient advice and insufficient time is spent on making informed decisions.

This year's survey built on this knowledge by investigation how people revisit these initial decisions.

Revisiting initial retirement fund decisions

We specifically asked members if they have revisited the decisions they made when they originally joined their retirement fund, 72% of them indicated that they had not revisited these decisions.

This should be noted in context of how long members have been members of the fund. From the sample, 42% indicated that they have been with their current employers for more than 15 years and the mean duration of employment is 11.6 years. As most of us know, life changes, and with that in mind, we need to regularly reassess our financial decisions. It is clear from our research that this does not happen in the retirement space.

Moreover, only 55% of retirement fund members indicated that they obtained advice from an accredited financial adviser or broker to choose the most appropriate investment portfolio.

Another worrying trend which emerged in this year's survey is that members are delaying advice about their retirement planning to even shorter periods in the run up to retirement. This year's survey showed more people thought it was unnecessary to obtain advice - and the mean term decreased to 9.3 years from 10.8 years.

From the first salary pay cheque!

Retirement decisions are not restricted to decisions **at** retirement and **during** retirement. On the contrary, it is crucial to acknowledge that retirement decision-making starts on our first day of employment.

The survey results indicate that the conversation about retirement needs to change. When we ask members about the assistance they require, most responses relate to decisions at retirement and income during retirement rather than ensuring sufficient provision **for** retirement.

Of the members who indicated that they will only need retirement advice in the last five years before retirement, just over half indicated that they will only need advice when they are actually close to retirement!

This is evidence that we, as an industry, need to change the retirement conversation to help people understand that they are creating and building their own wealth and assets - and that this project starts when they receive their first salary.

Preservation of retirement benefits

Another observation from the latest survey is that retirement benefit withdrawal is still problematic.

Almost 60% of retirement fund members, who withdrew their benefits, took the full amount in cash. The bulk of the money was used to reduce short-term debt (51%) and fund living expenses (33%).

The survey gives us insight into members' understanding of the implications of withdrawing their retirement savings in cash. The responses show that retirement fund members make financial decisions that have a significant impact on their retirement situation without properly understanding the implications of their decisions.

For example, only half of the members surveyed indicated that were aware of the level of tax they would pay. About half realised the effect withdrawal would have on their retirement outcome and 39% regretted the decision to withdraw, bearing in mind the level of tax which they paid.

Pensioners

Active members can also learn from the decisions made by pensioners. For pensioners the withdrawal picture is very similar with 74% of those who withdrew, indicating that they had taken some or all of their retirement savings in cash during their working life. More than half of them acknowledged that they used the money to reduce debt. 54% of pensioners indicated that they regretted the decision to withdraw, given the tax implications, and 41% say they could have considered an alternative option.

An important decision for pensioners at retirement is the size of the lump sum at retirement. Ideally this decision should be taken in the context of a complete financial plan. Instead, it is worrying that most retirees have depleted their lump sum shortly after retirement (mean of 2.1 years) and significant numbers used it to fund short term needs e.g. reducing short-term debt (35%) and living expenses (34%).

Many affluent pensioners indicate that they have made different decisions. This includes receiving advice and supplementing employer retirement savings with additional savings through a retirement annuity. Fewer withdrew money from their retirement fund during their working lives and took the withdrawal benefit in cash.

For many people retirement savings represent their largest or second largest asset. Our job, amongst other things, is to encourage people to realise this and to help them gain insight into their decisions and the implications thereof – people can only care about their retirement savings if they value it.

How healthy is the retirement market?

Pensioner

Jaco-Chris Koorts
Product Manager,
Glacier by Sanlam

Jayesh Kassen
Product Manager,
Glacier by Sanlam

The insights provided by the results of this year's Sanlam Benchmark Survey once again present the market with a wealth of valuable information about everything relating to retirement. Previous surveys' results also allow us the opportunity to recognise any trends and shifts in the behaviour of individual members and pensioners.

Focusing on the pension space, a core group of 252 participants took part in this year's survey. For the second year running, a booster sample of 50 pensioners, representing the affluent sector of the market, was also interviewed. Consistent with last year's approach, affluent retired individuals are defined as having income in retirement in excess of R25 000 per month. This not only allows us to substantiate our results from last year, but also allows us to identify any trends starting to develop among affluent retirees.

Plan and save from an earlier age

Drawing upon the luxury of hindsight, the single biggest piece of financial advice that retired individuals would give to someone starting out in their career was once again to start saving for retirement from an earlier age. However, there was a greater emphasis placed on planning for retirement from an earlier age and increasing your retirement contributions on a regular basis when comparing the results with that of last year's benchmark survey.

Tax implications of withdrawals

With the emphasis being placed on the preservation of retirement savings by National Treasury through their suggested retirement reforms, a few questions relating to the withdrawal of retirement savings were added to this year's questionnaire for the first time.

The percentage of pensioners who withdrew from their retirement fund through either resignation or retrenchment increased from 21% in 2014 to 25% in 2015 amongst the core group of pensioners. From the pensioners that withdrew their savings, for the first time we see that a startling 63% did not realise the level of tax that they would have to pay on the withdrawal amount. On top of this, 61% did not realise the effect that the withdrawal would have on their situation at retirement, and 54% indicated that they regretted the decision to withdraw a cash benefit from their retirement savings. Turning to what the cash withdrawal was used for, there is a clear shift away from paying off mortgages and spending money on home improvements, to settling short-term debt and starting their own business. This is indicative of the high levels of short-term debt that South Africans have.

In contrast to this, the percentage of affluent pensioners who withdrew from their retirement fund through either resignation or retrenchment is notably lower at 20%, although this has increased from 12% in 2014. In contrast to what we saw from the core group of pensioners, 75% of the affluent pensioners were aware of the tax implications of their withdrawal and 75% of the affluent pensioners realised what the effect of the withdrawal would be on their situation at retirement. However, 50% of these pensioners still regretted their decision to withdraw from their retirement funds. There was also an increase in the proportion of affluent pensioners using the cash benefit to reduce short-term debt and start their own business.

Positive trends

Pensioners were asked two specific questions regarding their financial status at retirement:

01 What sources of income do you have in retirement apart from your pension/retirement annuity?

02 Do you believe that you have saved enough capital to last for the rest of your life?

Both questions addressed the state of a pensioner's security in retirement. When asked the question about income sources, a greater proportion of affluent pensioners admitted to having other income from savings, investments and property, whereas the core pensioners group listed other sources of income as primarily from savings and investments.

In response to the second question above, a positive trend is seen amongst the core group of pensioners when asked whether they believe that they have saved enough capital to last them for the rest of their life, with 42.5% believing that they have. This has increased from 31.6% in 2014 and 30.3% in 2013. 74% Of affluent pensioners believe that they have saved enough capital to last their remaining lifetime, which has also increased from 66% in 2014

The good news continues with the percentage of pensioners indicating that they have a shortfall between their retirement income and monthly living expenses decreasing from 59.2% in 2014 to 44.8% in 2015. Amongst affluent pensioners the percentage indicating a shortfall dropped from 26% in 2014 to 4% in 2015. To deal with any shortfall that they may have, the core group of pensioners opted mainly to cut back on non-essential expenses and dig into other savings, with a smaller percentage indicating that they would ask friends or relatives for financial assistance or work to supplement their income. The proportion of affluent pensioners who have a shortfall was too small to draw any credible conclusions in this regard.

The average retirement age for the core group of pensioners remained fairly stable at 60 years of age, whereas the affluent pensioners' average retirement age decreased to 58 in 2015 compared to 61 in 2014. Affluent pensioners also start saving earlier for retirement - at 23.6 years compared to the core group of pensioners who started savings for retirement at 26.9 years of age.

Financial advice critical

Moving to the topic of financial advice, the proportion of the core group of pensioners receiving financial advice on their retirement planning prior to their retirement age increased considerably from 57.6% in 2014 to 67.1% in 2015. Comparing this to affluent pensioners, 84% of affluent pensioners received financial advice prior to retirement. They received this financial advice much earlier, with the financial advice given 12.3 years prior to retirement. Looking at who provided the financial advice, the bulk of the financial advice to the core group of pensioners was provided by their company's HR officer and their personal financial adviser. In contrast to this, affluent pensioners predominantly received financial advice from their personal financial adviser or an adviser from a life insurance company.

It is notable that 42% of affluent pensioners were aware of the retirement benefits that they had in place more than five years before retirement, whereas only 25% of the core pensioner group fulfilled this criteria. It is worrying that 22% of pensioners in the core group became aware of their retirement benefits at retirement, compared to 8% of the affluent respondents.

During this year's survey, pensioners were asked for the first time if they were advised to consider converting their group risk benefits to individual life policies. From the core group of pensioners, 24% indicated that they were advised to do so, while 48% of affluent pensioners indicated that they received advice in this regard.

Pensioners who opt for a lump sum at retirement are encouraged to stay within the tax-free limit and the lump sum should ideally be used to repay debt. Based on the survey results, the proportion of general pensioners spending the lump sum on living expenses is still relatively high at 34%. However, the percentage of pensioners using the lump sum to reduce short-term debt increased considerably from 28.4% in 2014 to 34.9% in 2015. If we compare this to the findings for affluent pensioners, fewer pensioners invested this lump sum, and the use of the lump sum to reduce short-term debt increased from 16% in 2014 to 46% in 2015, and the use of the lump sum to start their own business increased from nothing in 2014 to 22% in 2015. This change in priority to reduce short-term debt could be seen in a positive light even though the results seem staggering, with the percentage of pensioners in the core group who indicated that they had depleted their lump sum increasing from 38.4% in 2014 to 46.8% in 2015. This trend is also seen amongst affluent pensioners, with 44% of affluent pensioners indicating that they have depleted the lump sum compared to 22% in 2014.

Regarding the type of post-retirement annuity being purchased, the shift away from level guaranteed life annuities continues, with 13.9% of pensioners from the core group indicating that they purchased these annuities compared to 20.4% in 2014.

Among the core group of pensioners, the percentage that indicated that they want the trustees to provide them with a default or recommended annuity, providing them the option to opt out, increased from 13% in 2014 to 28% in 2015. In contrast, 66% of affluent pensioners indicated that they want complete freedom of choice, with no restrictions from trustees when it comes to purchasing a post-retirement annuity.

Looking forward

The pensioner benchmark survey of 2015, as a barometer for the financial health of the retirement market, shows that the hard work done to increase employees' awareness of retirement has started to pay dividends. However, there are still a lot of danger signs that we, as an industry, should continue to look out for and address, in order to alleviate the financial pressure on retirees. The findings of the 2015 Pensioner Benchmark survey will once again go a long way in providing the information necessary to do so.

Notes

Notes

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