STEPHEN CRANSTON: Far too many South Africans retiring as paupers — surveys
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Alexander Forbes and Sanlam reports highlight need for strict rules on withdrawals from pension funds
Few people retire with enough money. The number one culprit is that SA is one of the few jurisdictions in which people are given full and unrestricted access to their retirement savings whenever they change jobs.

In many cases, these withdrawals are not done because of financial hardship. I was guilty of taking out money myself when I resigned from the Argus Group to pay for what seemed important, but with hindsight was just frivolous consumer spending. Yet compulsory preservation is one of those politically unacceptable goals which the union movement will not accept. There has been enough debate on the far less controversial issue of annuitisation of provident funds. It is utterly irresponsible that provident funds pay out the entire accumulated retirement savings of a member in cash. In time, but with a generous phasing-in period, provident funds will have the same exit rules as pension funds, just a third can be taken out in cash, and some consider even that to be too generous, and the rest must buy a monthly annuity or pension.

But even pension fund members can get a full lump sum by the ruse of "resigning" a few days before their official retirement date. This path has been followed by 4% of Alexander Forbes fund members

Two surveys of the retirement industry came out this week, the Alexander Forbes Member Watch and the Sanlam Benchmark Survey. Vickie Lange, head of best practice at Forbes, says it crunched the data from more than a million of its members, from its umbrella fund and the stand-alone corporate funds which it administers. The median age of members is 37 so many still have time to work towards better outcomes.

But Lange says that average replacement ratio is a worryingly low 26%. This means that on retirement the average Forbes client will retire on little more than a quarter of their final salary. Only 8% of retirees are set up for a "comfortable" retirement with a replacement percentage of 80% or more. She says that every year, one in eight members exit the fund and less than 9% preserve their retirement capital. When it comes to assets, however, more than 48% of assets are preserved. Few people with fund credits of more than R1m cash in, but almost everyone with R25,000 or less in their accounts do.

Forbes argues that there needs to be a minimum contribution of 17% more than 40 years to achieve a 75% replacement ratio. Lange says that the best way to double a replacement ratio is to keep working, postponing retirement from 55 to 65 should do the trick. She says that to achieve a replacement ratio of 75%, the Forbes actuaries believe that you need to retire on 12.2 times final salary: the average 65-year-old on their books has saved up 3.7 times.

Sanlam's clients are a long way from that. No fewer than 60% of its members have balances of six months pensionable salary or less. Only 11% have accumulated R500,000 or more.

The Sanlam benchmark survey shows that during the lockdown, there has been a substantial increase in queries about fund values and investment performance. If it has made members keener to monitor what for most of them will be their largest asset, it must be a good thing.

There has been a suspension of contributions in many cases; 26% of employers in the Sanlam sample had done so. These provide net cash flow relief on average of R1,500 a month. If it lasts no more than six months, the impact on final fund values should be less than 3%, perhaps as low as 1%. There was widespread support for Sanlam's suggestion for a temporary increase in the tax-free threshold on withdrawals from R500,000 to R1m or even for a once-off tax-exempt withdrawal on any amount.

Sanlam marketing actuary Viresh Maharaj says that those who retire in a market crash will be penalised. He says that even a low-equity portfolio, which can be up to 50% invested in equity and property, does not provide protection in a market crash. He suggests it might be time to consider the smoothed bonus policies — offered by life offices — which provide guarantees (at a cost) in the event of a crash. Asset consultants rarely support these products, but the benchmark shows that 13% are now looking at them.

The survey showed that technological innovation was by far the most important trend in pension funds, followed by member focus. Overwhelmingly, communication is by e-mail, with WhatsApp overtaking SMS for second place.

Some hot topics of recent years, such as impact investing and index funds, barely registered in the survey.

Maharaj says members' experience of their pension funds is changing. There is more engagement and more sophisticated processing of data. Over the past decade, a million members have moved to umbrella funds, which have professional staff to manage the member communication process. And default regulations have been introduced, making it easier for people who do not want to make investment choices to go into well-thought-out preselected portfolios.

But Lange says that less than 1% of its members made a switch during its previous financial year. This must indicate widespread satisfaction with the defaults, or perhaps simply a high level of confusion and complacency. The introduction of retirement benefits counsellors, who will provide a free service to members informing them of their options will be a major step to clearing this up.