



‘the ‘LOP’ effect ...’

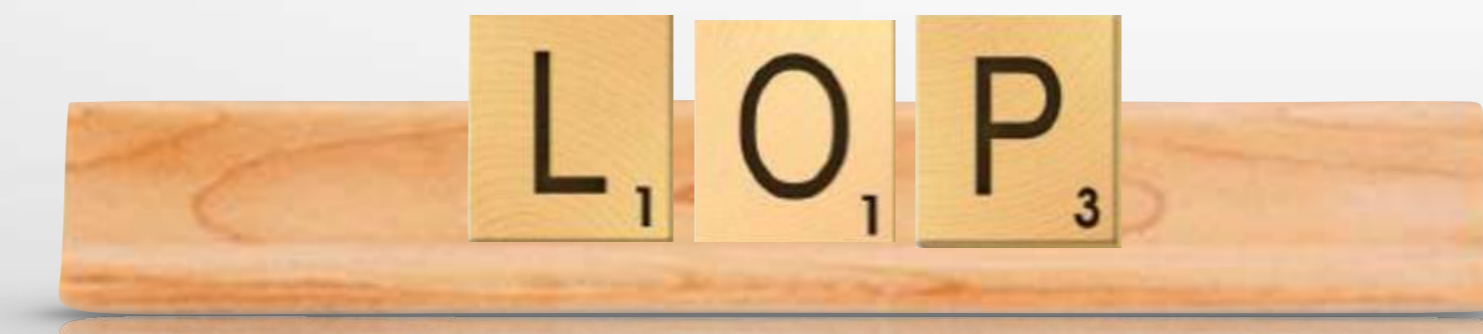




‘ LOP! ... you ‘lop’ branches off a tree! ’



‘ not a common word for an actuary! ’



L₁ O₁ P₃



‘ since the beginning of time ’



symbolic

strength

longevity

spiritual

shelter

edible fruit

community meeting point



asset



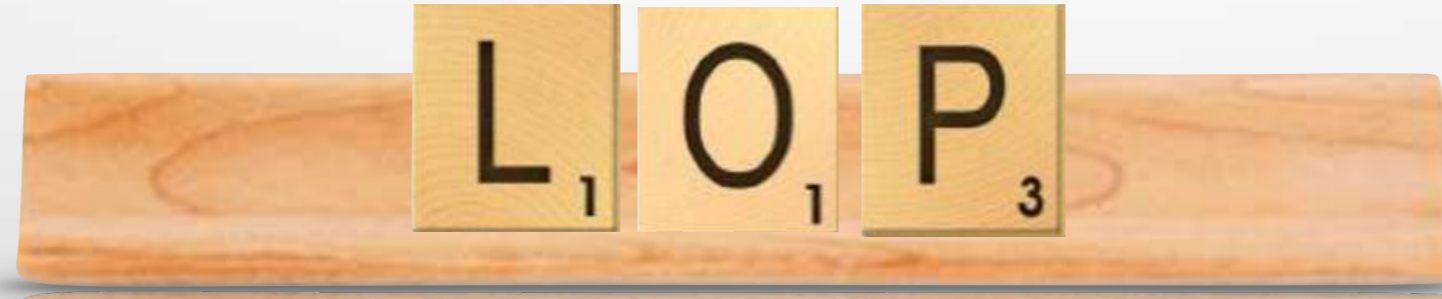
lopping

happens too often with retirement funds



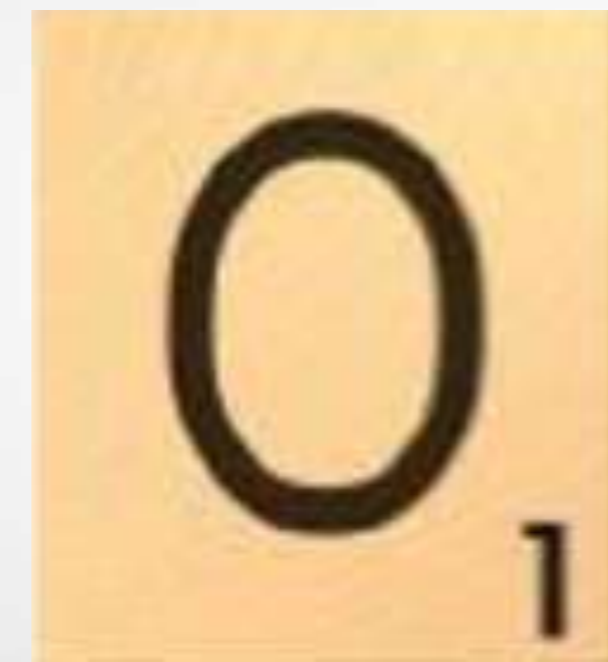
LONGEVITY

MEMBER APATHY

THE  EFFECT



ACK



F



RESERVATION

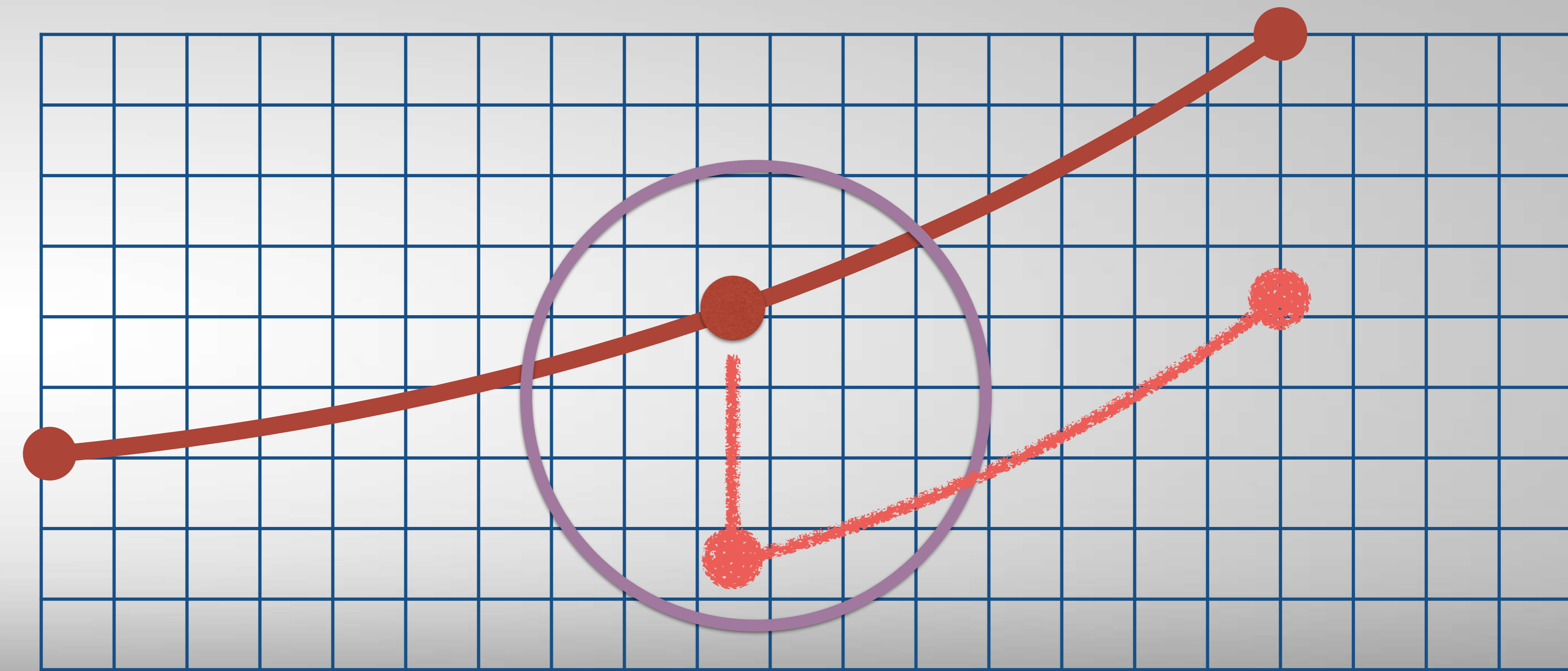


ACK



ERVATION

P-DAY
T-DAY



P-DAY



T-DAY

- harmonises tax status of pension, provident and retirement annuity funds
- phases out provident fund benefit structure

T-DAY

1 March 2015

P-DAY

2-3 years away

even when T-Day introduced ...

- members of pension / provident funds still able to take entire withdrawal benefit in cash when they are retrenchment, resign or given notice
- National Treasury proposes members may only take one tenth of withdrawal benefits per annum

P-DAY

2-3 years away

leakage
more tightly managed

phased in
over a period of years

improve
retirement outcomes

but not
prohibited

members able to access funds
may end up with inadequate pension

additional measures needed in interim
to prevent leakage

defaults / member guidance and support

COMPULSION?



every South African employee to belong to a fund

could employees do better themselves?



virtual tax haven

retirement funds

R10 000 pm investment over 25 years

return from fund R30.3M

return from investment R14.4m



virtual tax haven
retirement funds

- cost effective
- wholesale operations
- economies of scale
- National Treasury targeting further cost reductions
- contractual saving / convenience / no input needed
- know how / discipline / default strategies



no-brainer!



2014
survey

12.5%

average contribution rate
(net of risk and fund
management fees)



of TGP x 40 years
earning CPI +5.5%

=

75%

... why do so few people achieve this?

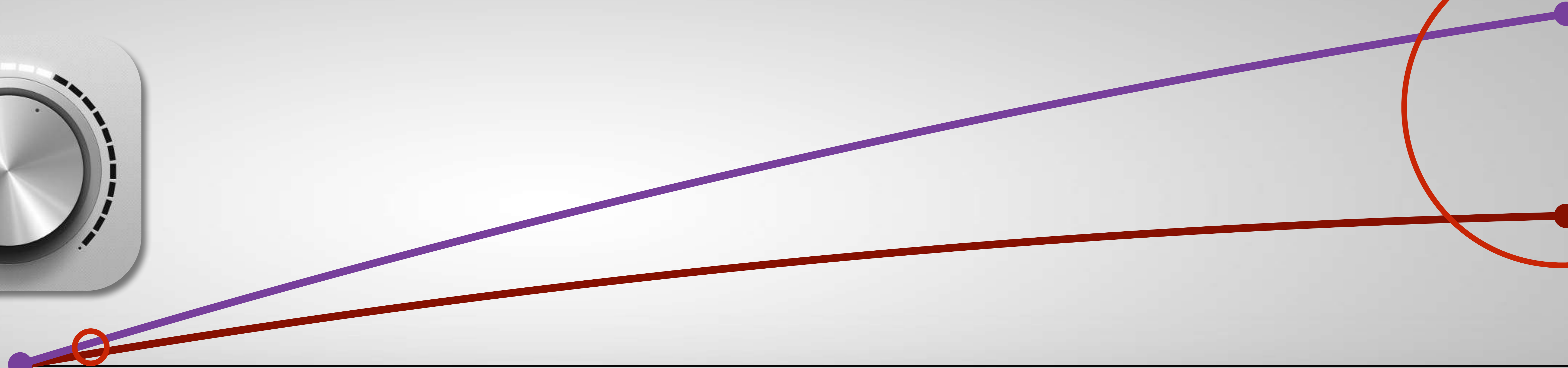


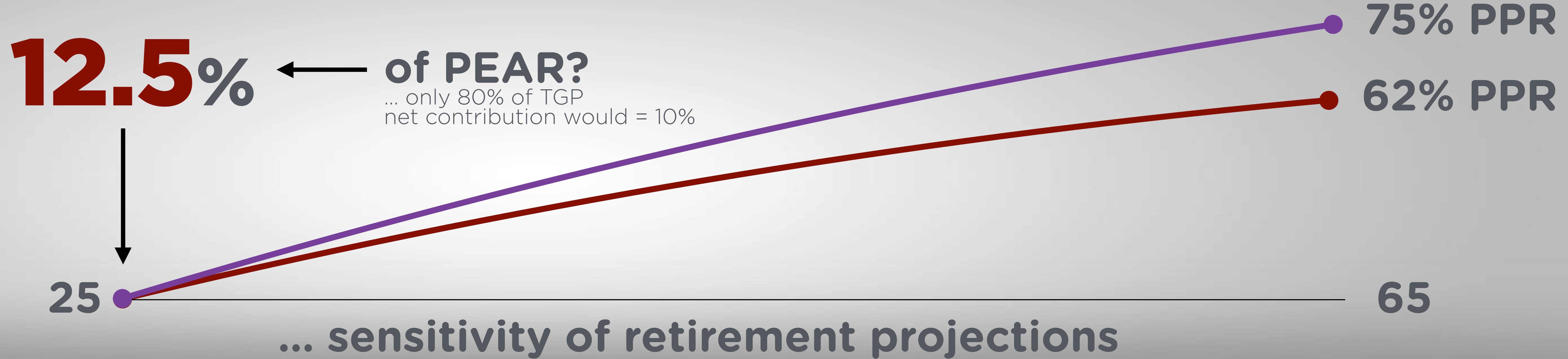
25



... sensitivity of retirement projections

65





12.5%

← **of PEAR?**
... only 80% of TGP
net contribution would = 10%

75% PPR

62% PPR

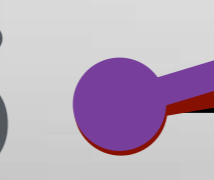
25

65

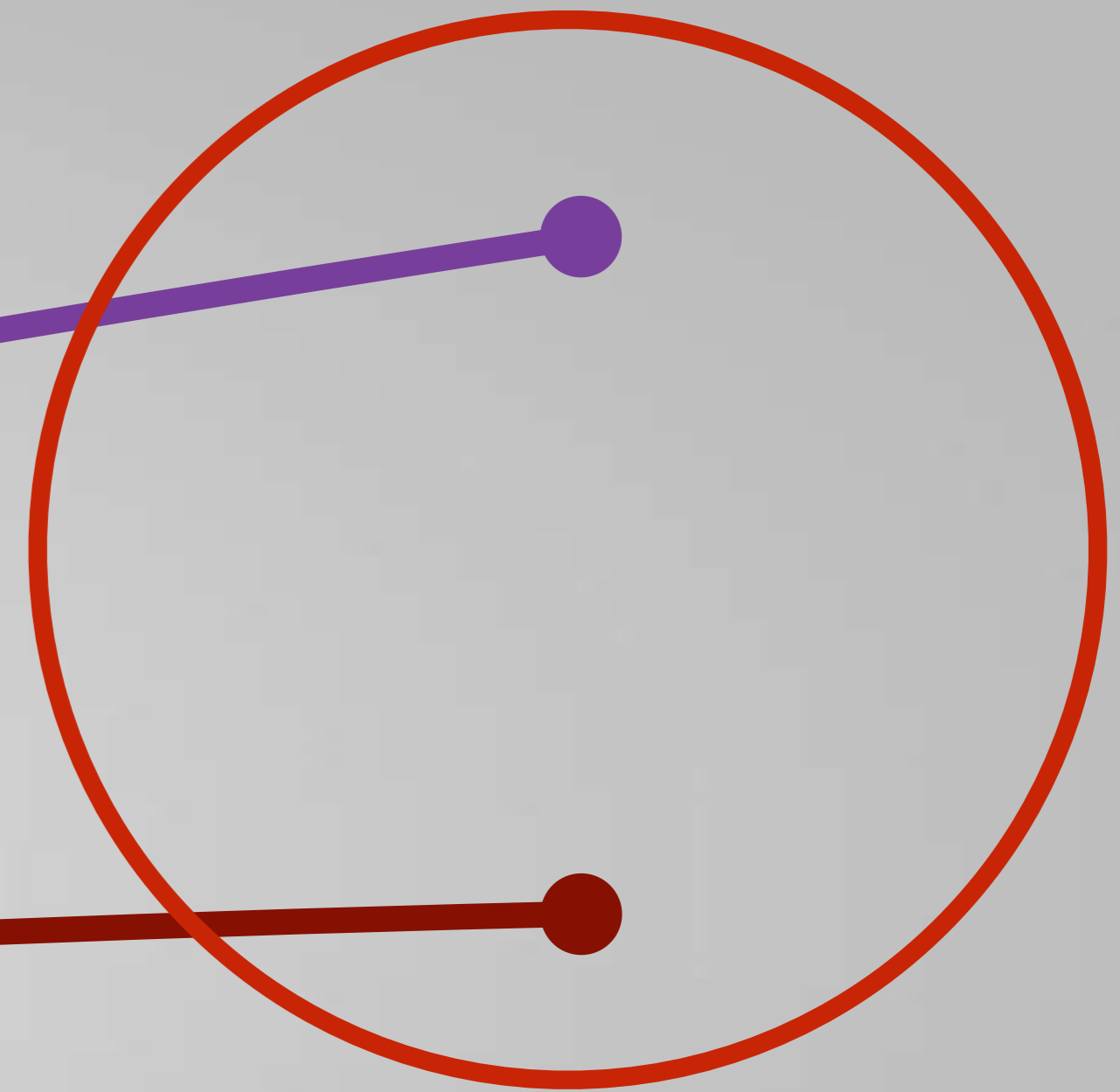
... sensitivity of retirement projections



25



total guaranteed package (TGP) p.a.		R120 000
pensionable remuneration (PEAR) p.a.	R96 000	
	% of PEAR	% of TGP
total contributions	15,5%	12,4%
total net contributions (less 3% costs)	12,5%	10,0%



65

... sensitivity of retirement projections

common confusion ...

PPR

% of TGP

less contributions to fund

eg. earn R120 000 TGP

contribute R14 880 (15.5% gross)

net amount = R105 120

↳ 75% = R78 840

NRR

% of PEAR

doesn't take contributions into account

death / disability based on PEAR

not aligned to new tax deduction tables

recommendation ... change formulas



- review in line with new tax deduction formulas (with effect from T-DAY)
- alternatively ... other methods e.g.. PPR calculator

retiring early



- 2013 pensioner survey - 46% retired between 56- 60 years old ... many didn't realise they paid a high price

younger normal retirement age

60

contributions would need to increase to 20% to get back to 75% PPR

43% PPR

65

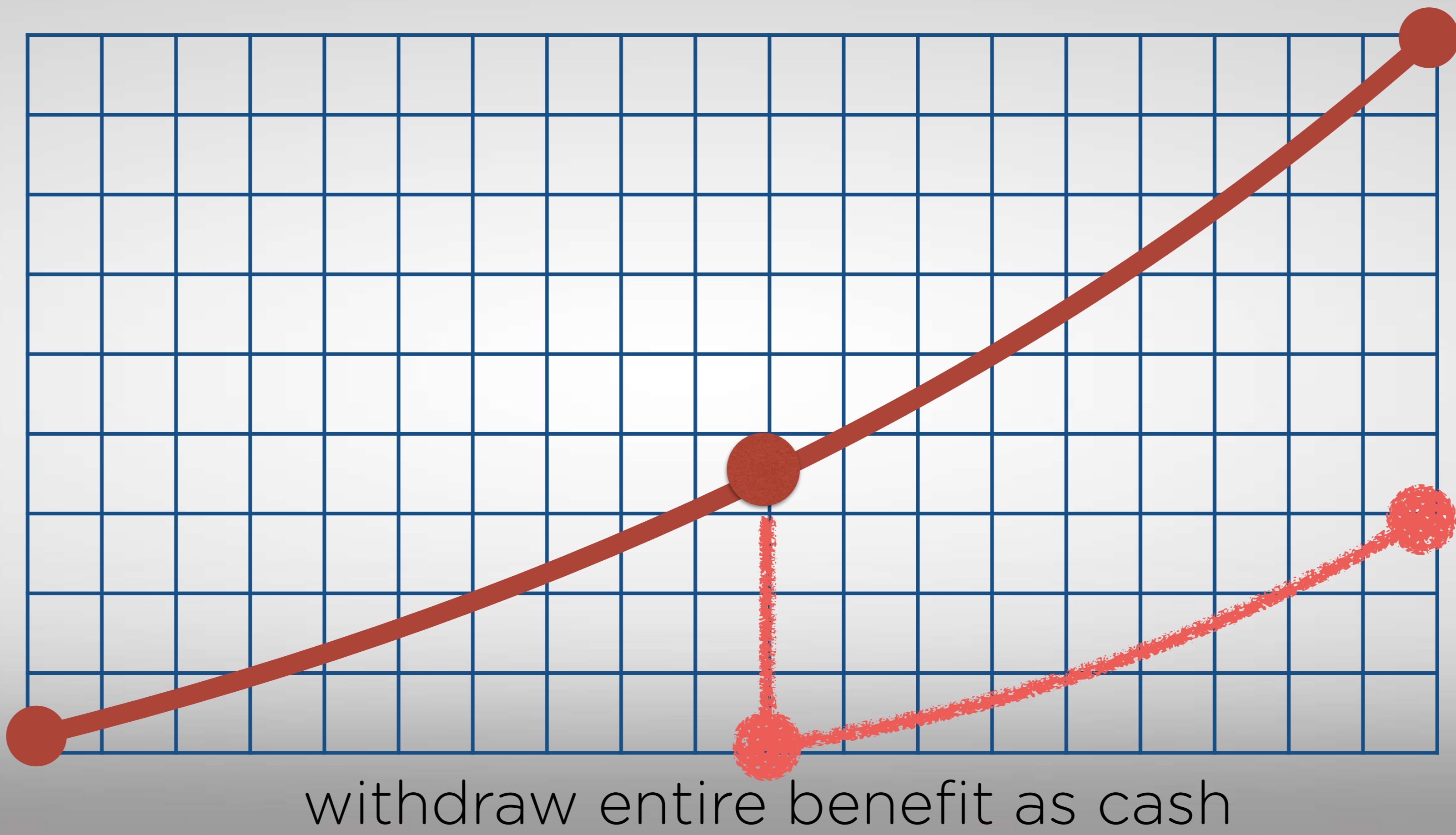
75% PPR

phased retirement

- if at 60 PPR is 55%
- add 5 years PPR moves to 79%
- add another 2 years PPR moves to 91%



change
job at 45

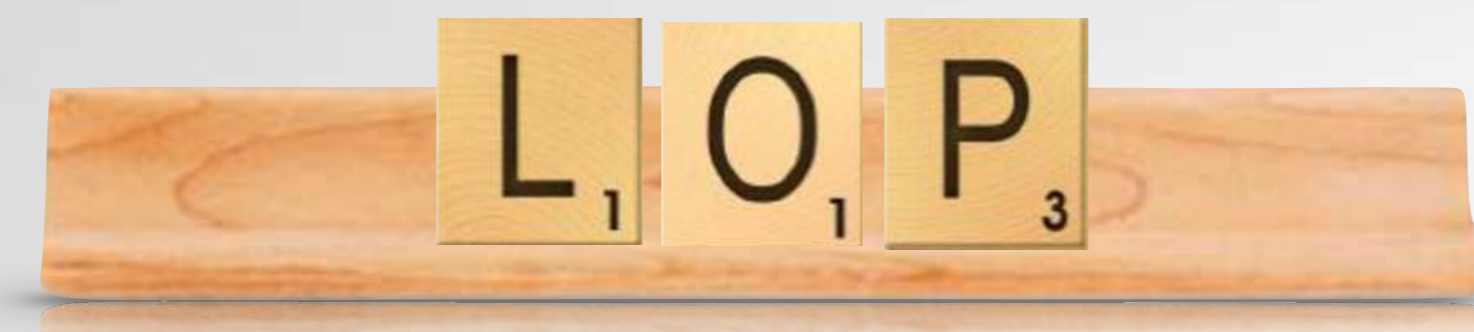


target PPR = 75%

continuing at default contribution rate
PPR = 27%

withdraw entire benefit as cash

what can be done right now?



- people voluntarily opt out of position where they can 'LOP'
- look at design of fund and create right defaults
- get in front of every member ... explain dangers of 'LOP'
... get them to tick the right boxes to transfer to preservation fund
- make this a part of day one orientation

employers need to see value of this interaction



PENSION

TAX

perceived
grudge
purchase

shift in mind set

PENSION



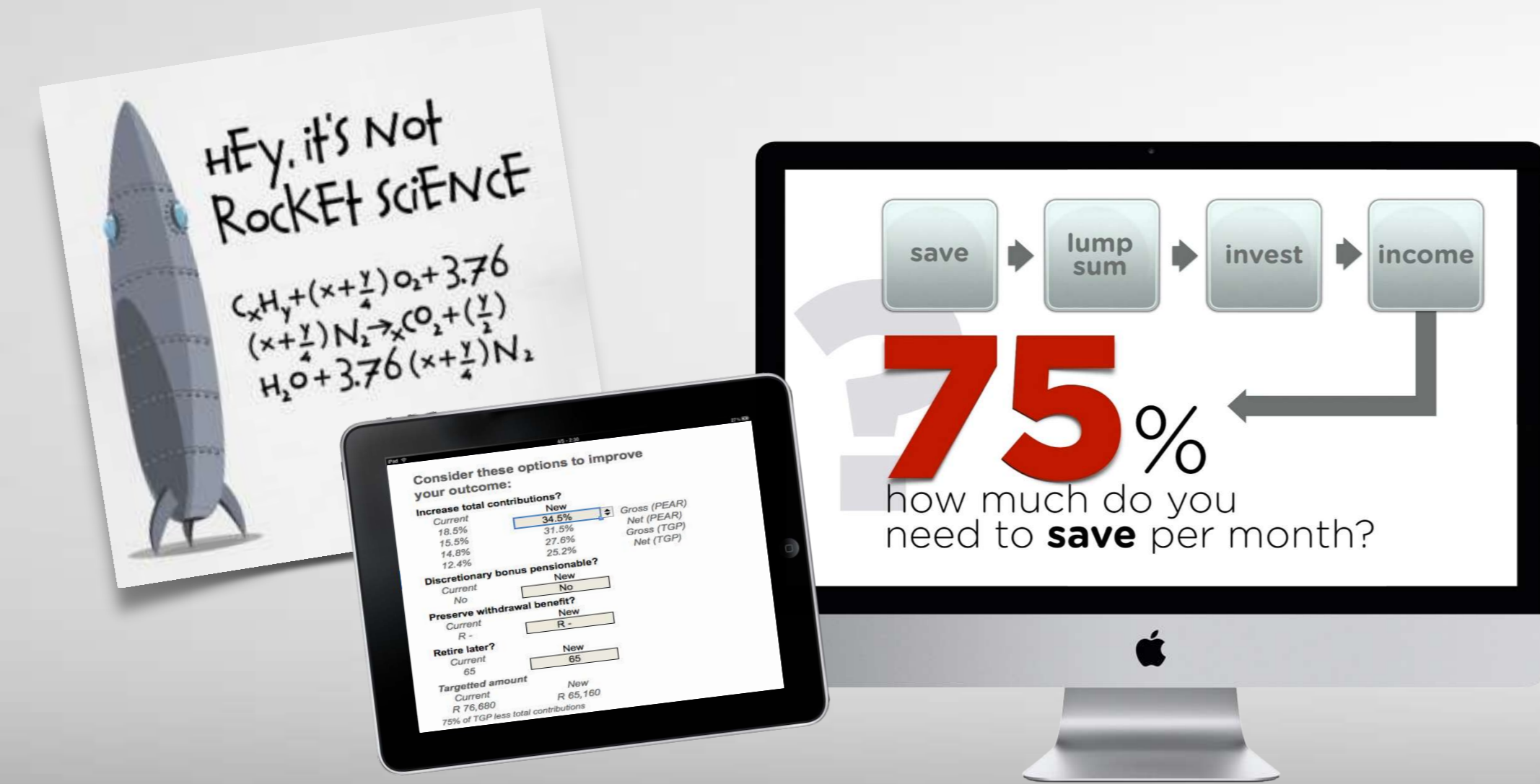
employee
value
proposition

day one member guidance and support



- good understanding of fund (often first time)
- shows leverage points
- empowers to take action
- prepared to take responsibility for own plan

day one member guidance and support

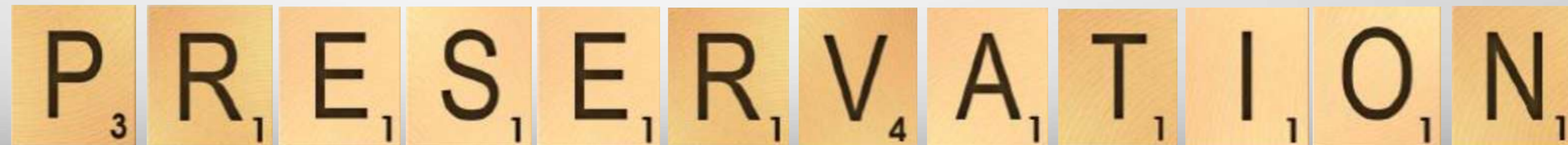


inform • empower • take action

the power to decide their future

www.scrabblefinder.com

1780 words from these 12 letters



R₁ E₁ T₁ I₁ R₁ E₁

... with a good outcome

P₃

S₁

V₄ A₁

O₁ N₁