Sanlam

Sanlam Benchmark 2020

Special Edition

SECTION 01

BENCHMARK 2020

INSIGHTS

FOREWORD

By
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Unless someone like you cares a whole awful lot, nothing is going to get better. It's not.

Dr Seuss

PANIC AROUND THE WORLD FOR A BRIEF MOMENT

Just like that, in a flash the world as we knew it changed drastically. Our behaviour and the way we interact and connect with one another are vastly different from just a few months ago. The human psyche was not ready for this overwhelming shock that resulted in short-lived fear and panic around the globe. World leaders began to take control of the situation in a systematic manner, a new world was ushered in as aeroplanes were grounded, curfews were imposed and social distancing was enforced.

I recently watched a documentary on the Coronavirus in which scientists provided an informative overview of COVID-19. I learned that viruses are pathogens that require other living cells in order to reproduce. As more people become infected, the virus is spread on an exponential basis, almost doubling every several days.

There are two ways to defeat a virus: Either through vaccination or herd immunity, where the rate of infection slows and the virus dies out. But with COVID-19, if the world had to wait for immunity, millions of people would already have died. Vaccines are really hard to develop and it can take up to 18 months just to know if they are effective. Global economies were placed on hold while experts considered their options based on data and guidance from lead scientists.

FOREWARNED IS FOREARMED

Why then was the world not prepared despite the alarming evidence? In a World Economic Forum Global Risk report dating as far back as 2007, scientists warned of the impact of pandemics and chronic diseases. In a more recent report by the World Health Organisation titled "A world at risk", it warns of a potential threat of a rapidly moving highly lethal pandemic caused by fast-moving respiratory pathogens. Despite all the warning signs, some may still argue that the world was caught off guard. Others might assert that it was the inability of global leaders to act due to their inertia or their unwillingness to collaborate and share vital information in a timely manner. The last time the world had experienced such a phenomenon was in the early 1900s with the outbreak of smallpox, which mercifully has been completely eradicated.

LESSONS NOT LEARNED

Now that we have a better understanding of the virus and how infections occur, which behavioural changes, including personal hygiene, will become part of our new normal? Where does the responsibility lie, who will monitor, report and enforce the necessary behavioural changes? Lessons of this pandemic, the world's lack of preparedness and responsiveness, can so easily be transposed to any industry because human behaviour lies at the centre of decision making and action. I am thinking about attitudes towards personal finances even way before we hit our current economic woes. For decades we have seen the effect of not planning, saving and making the requisite financial changes in an attempt to avert a personal financial crisis at retirement. This new world order is forcing us to connect digitally and even the most stubborn laggards have had to embrace technology. Lack of income or revenue is forcing individuals and businesses to seek alternative earnings sources. In the midst of the fear and chaos lies the will to reinvent ourselves, and business is applying blue ocean strategies like competitor partnerships. Individuals close to retirement or at retirement are rethinking the world of work and possibly staging a comeback as finances have taken strain because the lockdown has all but eroded savings and investments for some. In a recent study by Alltold it reports that 69% of employers are encouraging staff to work from home. Alltold surmises that office blocks will become a thing of the past and will need to be repurposed to survive.

DETERIORATION OF SOUTH AFRICA'S FISCAL POSITION

Global disease pandemics not only cause loss of life but devastate economies and create social chaos. They affect political, environmental, social, technological, economic and regulatory frameworks.

In South Africa, economists are predicting a bleak fiscal outlook. In his most recent supplementary budget, Finance Minister Tito Mboweni said the government intends borrowing about R121bn from international financial institutions to support the pandemic response, R21,5bn of which is earmarked for COVID-19-related healthcare spending. According to the South African Reserve Bank's Quarterly Labour Force survey, most industries experienced job losses in the first quarter of 2020, compared to the fourth quarter of 2019. The healthcare, financial and economic sectors have a direct impact on every household in South Africa. SA's unemployment rate rose to 30,1% in the first three months of 2020, reaching its highest level on record, even before the COVID-19 crisis. It is true that for some industries, like technology, huge opportunities arise from the shortcomings in others.

The unintended consequence of this pandemic is the second financial crisis since 2008. The result is that even more people will be financially unprepared for retirement. This not only holds true for people who are expected to retire in the next 6 to 12 months. With all the information available, longer-term planning is now more essential than ever before in order to withstand the financial effects of any future global disasters. These could be triggered by any forces such as the lack of clean drinking water and a global shortage in food supply.

WHEN WILL THIS PANDEMIC END?

It is anyone's guess, but the WHO will declare the pandemic over once the infection is mostly contained and the rate of transmission drops significantly around the world. It has been estimated that this can take anywhere from two to five years.

What defines us at this time is how we respond as individuals, communities, industries and nations – our level of humanity, connectedness and empathy for those whose family members have succumbed to this disease, those who have had to endure decreased levels in incomes or worst yet have become unemployed. As Dr Seuss said, now is the time to care a whole awful lot otherwise nothing is going to get better.

My team has considered the impact of COVID-19 specifically on the retirement fund industry and presents a number of possible responses in this special edition of the Sanlam Benchmark Research Insights report.

A RICH HISTORY OF INVESTING IN EMPOWERMENT

By
Temba Mvusi
Executive Director
Sanlam

For over 100 years, Sanlam has been investing in potential. In 1918, a small group of businessmen had a vision to start a local insurance company to empower communities; Sanlam had its start. Today, we are the biggest non-banking financial services company in Africa. Our mission remains unchanged; to invest in the potential of Africa's people and help forge solid financial futures.

The vessel for this is a single-minded focus on empowerment. We know that diversification is key to resilience. Not 'tick the box' transformation, but meaningful empowerment that will have an impact for generations to come. In the current COVID-19 climate, this is more important than ever before. We must find lasting ways to move the needle.

This empowerment takes many forms. Today, Sanlam is a B-BBEE level 1 business. The group has led the way with many seminal initiatives over the years - from the country's first major black empowerment deal in 1993 and the establishment of the Sanlam Development Fund to demutualising and listing on the JSE in 1998, creating 400 000 black shareholders overnight.

PEOPLE AND PARTNERSHIPS

Empowerment forms the basis of our DNA. It informs every facet of our business - from how we approach in-country partnerships to our people agenda. We foster a win-win business model whereby we support our local partners. When they grow, we grow.

In terms of our team, we have been a certified Top Employer for a total of five years now. We know our people are our primary asset and empowering them remains a priority. With the Fourth Industrial Revolution comes the need for velocity. This has only been exacerbated by the onslaught of COVID-19. The world of work is changing rapidly; we're focused on equipping our workforce with the requisite skillset to meet the demands of a digital age.

Empowerment is ultimately about purpose. It's a conscious choice to prioritise shared value. To ensure that every decision made enables a positive action. Actions that catalyse a better future for all South Africans and Africans. This continent will always be our home. So, we will continue to actively seek ways to invest in her people.

KEY WAYS WE INVEST IN AFRICA AND HER PEOPLE

1993

Sanlam sells metropolitan life to methold, a Majority black consortium:

South Africa's first major black empowerment deal

1993

Sanlam and Real Africa form Real Africa Asset Management. RAAM soon launches the Empowerment Equity Fund:

First unit trust to focus on 'black-chip investments'

1996

Sanlam starts the R2 billion **Sanlam Development Fund,** which has capitalised over 100 BEE deals

1998

Sanlam demutualised and listed on the JSE and Namibian Stock Exchange: **Largest public offering in South Africa's history at the time**

2004

Introduction of the Sanlam Progressive Smooth Bonus Fund: **First black-managed product of its kind** in South Africa

2017

A broad-based black empowerment consortium, **Ubuntu-Botho (UB), bought a 10% shareholding in Sanlam**. At the end of the transaction in December 2013, after loans had been paid up, the group had an unencumbered 15% shareholding in Sanlam. Altogether the deal created about R15 billion in value. This makes it one of the most successful transactions of its kind in South African history

ONGOING

Sanlam has a **longstanding partnership with the Black Management Forum (BMF)**, which has seen us collectively pioneer important projects aimed at empowering black managers in South Africa - such as Planning Beyond our Lifetime, which focuses on financial literacy

LOOKING TO THE FUTURE WITH OUR LATEST B-BBEE DEAL

In 2018, Sanlam shareholders approved a package of new B-BBEE transactions, which will see the group issue a further 5% of our ordinary share capital to our broad-based black economic empowerment shareholders. This will foster further economic inclusion, with a focus on black women and young people.

HAS YOUR RETIREMENT PLAN SURVIVED THE LOCKDOWN?

OR IS IT LANGUISHING IN QUARANTINE?

By
Danie van Zyl
Head: Smooth Bonus Centre of Excellence
Sanlam Corporate

The South African economy is slowly reopening. While most office blocks are still very quiet, people are finally getting to that much-delayed haircut. Shops are becoming fuller, with customers accepting the queues outside the shops, the face masks and constant sanitising of hands with stoic resignation.

People are still frightened – South Africans are still dying, but there is a general feeling that we have reached the point at which our economy stops collapsing and begins to grow again. Time to consider how your retirement plan fared during the Great Lockdown.

For most people sorting out the myriad of do's and don'ts during the lockdown, thinking of their retirement savings was the furthest from their mind. That is unless you were due to retire at the end of March 2020. For these members, the term "market volatility" took on an altogether more ominous meaning. Imagine diligently saving for retirement over your entire working career only to see your retirement nest egg take a serious blow, losing anything between 15% to 20% of its value over February and March.

How will the recent market downturn have affected these members' retirement plans? Will they still be able to secure the retirement income on which they were planning?

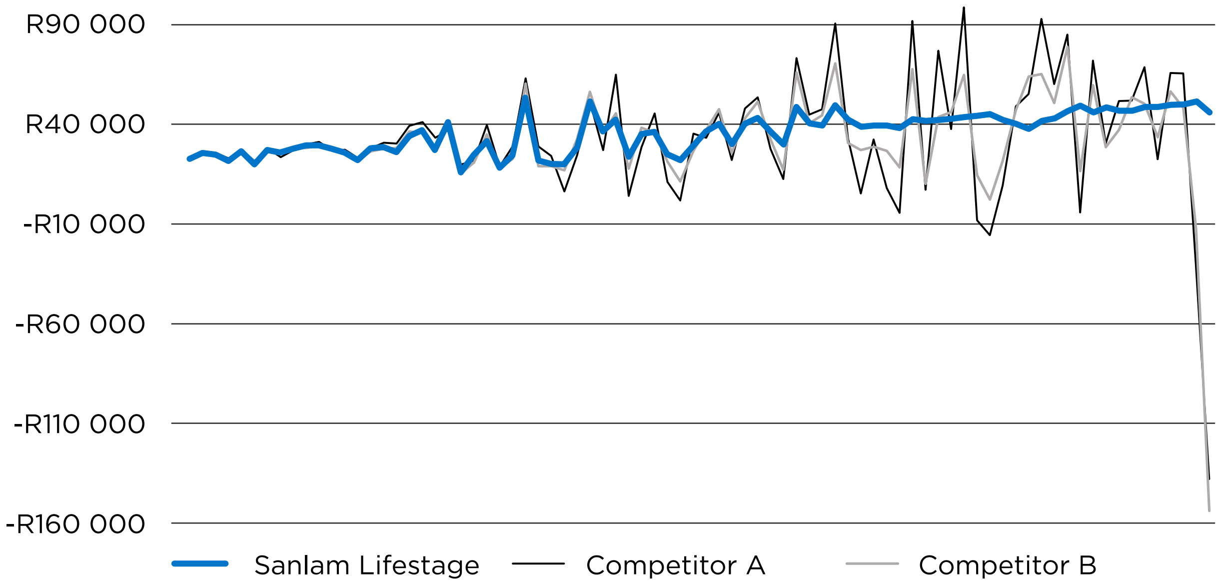
Younger members, with a long investment horizon, should not be overly concerned about market conditions now. Volatility is only a concern when you are either going to buy or sell an asset over the short term. But this is exactly what members are doing when they retire and opt for a guaranteed annuity; they are converting their retirement fund savings into an annuity for the rest of their lives. A significant market downturn before retirement is almost certain to lead to a permanent loss of income in retirement.

Over the last three months I spoke to many concerned members about to retire, all invested in one of our Umbrella Fund's lifestage strategies. They took great comfort in the fact that their retirement nest eggs have not been reduced as a result of all the market turmoil. How did we achieve this? In the Sanlam lifestage strategies, our default option close to retirement is a smoothed bonus portfolio. Why? Because this is an excellent way to protect a member's retirement nest egg while still giving good returns. Six years before retirement, a member's savings are transitioned over 50 monthly switches from an aggressive accumulation portfolio to a smoothed bonus portfolio.

A good way to illustrate the smoothing effect is to track the progress of a member's retirement savings over time, and then show the monthly difference in the fund value. In the graph below we tracked the progress for a fund member who slowly built up a retirement nest egg of just under R3m. The graph shows how much his fund value differs from the previous month for the last 80 months. We assume the member eventually retires at the end of March 2020 while invested in the Sanlam lifestage strategy (blue line).

For illustrative purposes, we then added the same calculation using the investment returns for two competitor lifestage strategies that do not use a smoothed bonus portfolio at the end of those strategies.

MONTHLY CHANGE IN MEMBER'S FUND VALUE



The greater range (positive and negative) of results is clear when considering the competitor lifestage strategies as the member approaches retirement. Under Competitor A, the member would lose R140 000 during his last month of employment, while this figure increases to R150 00 for Competitor B. Using a smoothed bonus portfolio at the end of a lifestage strategy, as Sanlam does, greatly reduces the variability of a member's fund value in the crucial period when the member has his biggest fund value (close to retirement). This leads to a far more stable and predictable pattern of growth in a member's fund value and not the wide dispersion of results that can be in the alternative strategies.

The end result is that this member, as well as many others in our Umbrella Fund, can face retirement with confidence, knowing his retirement savings have survived the Great Lockdown.

UNLOCKING SA'S ECONOMY

By
Mervyn Shanmugam
CE: Alternatives
Sanlam Investments

Investing for impact: what is your role?

Arguably, the biggest crisis that South Africa currently faces is the economic fall-out of COVID-19, and the resultant job losses of unprecedented scale. The pandemic has exposed many harsh realities in South Africa, of which poverty, high levels of inequality and unemployment are but a few. Everyone has a role to play in trying to address the deep misalignment in the global economy, and it is during times of crisis that people truly become aligned in their thinking.

During these times we all have to ask ourselves: what is Y(OUR) role?

THE GROWING IMPACT INVESTING TREND

According to the Global Impact Investing Network ('GIIN'), impact investments are "made into companies, organizations and funds with the intention of generating social and environmental impact alongside a financial return".

The impact investment movement has now become mainstream globally, and has captured the attention of key policymakers locally. In a recent discussion document, COSATU stated that growth measures must include "among others, impact investments, interchangeably developmental and productive". There needs to be significant progress in this space, most notably through investments into projects in the real economy that allow the objectives of government and commercial investors to be met. Here we can look at a successful global example in Climate Fund Managers' renewable energy fund, which not only drew in $850 million of investment from developmental and commercial funders, but innovated a whole-of-life structure which has seen an increase in the speed and likelihood of their infrastructure projects becoming operational.

GROWING FOCUS ON PRIVATE DEBT

The role which private markets can play is, without question, the cornerstone of growth for African economies.

While the Southern African Venture Capital and Private Equity Association (SAVCA) makes a credible case for private equity and venture capital, it is perhaps private debt which offers the most compelling case for retirement funds. According to an interpretation of Regulation 28, pension funds could allocate as much as 40% to unlisted debt instruments. While one wouldn't necessarily argue for the full allocation, it should be the fiduciary responsibility of trustees to actively consider this asset class. One could argue that private debt is less complex, more secure, cheaper, more liquid and easier to deploy than private equity or real assets such as infrastructure and property.

ACCESS TO FUNDING IS A MAJOR CHALLENGE

Access to finance remains one of the biggest obstacles to the survival and growth of, in particular, small and medium businesses. This is despite Government's loan guarantee scheme of R200 billion. Only 3.5% of the state's bailout for desperate businesses has been deployed to date, according to Banking Association SA's Bongiwe Kunene. That translates into 4,800 small businesses which have been successful out of the 29,700 that applied.

The investment case for private debt is now stronger than ever. Finfind estimated in its 2017 'Access to Finance Report' that the excess demand for capital by Small, Medium and Micro-Enterprises

('SMMEs') in South Africa was up to R346 billion, dwarfed by the pandemic-driven need. This mismatch of supply and demand creates a compelling investment opportunity allowing retirement funds to generate both a financial and social impact.

Good responsible investing practices should limit loan pricing to levels that will allow businesses to survive through the crisis and thrive thereafter. This way, investors will be able to earn market-related financial returns while playing a vital part in supporting the recovery of the economy. The SMME segment of the economy contributes 20% to the country's GDP and 47% of jobs. Before Covid-19, the National Development Plan estimated that by 2030, SMMEs would contribute 90% of the 11 million new targeted jobs.

SCOPE FOR PRIVATE MARKETS IN RETIREMENT FUNDS

With the move to defined contribution funds, consultants and retirement funds are grappling with the perceived 'liquidity constraints' of private markets. Research from Blackrock's paper titled "The core role of private markets in modern portfolios" shows that with a 5% annual liquidity need, retirement funds can allocate as much as to 35% in private markets, while the use of strategies such as private debt and real estate can increase this allocation still further.

THE INTERNATIONAL TREND

According to US-based Carlyle Group, internationally it is common for needy companies to receive financing from both traditional lending sources and dedicated impact funds. In fact, Carlyle found that 'it is precisely the societal goals of the impact investor – diversity and inclusion, environmental sustainability, responsible governance – that increasingly generate the above-market returns sought by the market.'

Carlyle also argue that it is no longer possible to generate the type of returns investors have become accustomed to without investing for impact; the tailwinds from falling finance costs, recovering economies and rising valuations have all but disappeared. In the new economic climate, investors have to generate their targeted returns by assisting with building better businesses.

AN ALTERNATIVE TO PRESCRIBED ASSETS TO BOOST GROWTH AND JOB CREATION

A contentious issue amongst industry players has been the use of retirement fund regulation for asset prescription. As a potential solution, SAVCA argue that by relaxing the upper limits on private market allocations and by properly distinguishing between the classifications of the various private market asset classes, retirement funds would be more inclined to direct capital towards the real economy. We further argue that the regulations already enable retirement funds a viable alternative to prescribed assets to boost growth and job creation. Several other noteworthy institutions, both public and private, also support the 2018 presidential move towards 'Impact Investing' as a potential contributory solution.

Arguably, a collective effort by government and institutional investors in targeting impact investments should negate the need for prescribed assets. Our country is well past the stage where businesses are at breaking point, jobs are under threat and unemployment levels are at alarming levels due to Covid-19.

If retirement funds do not proactively respond now by allocating to impact investments, will they ever do so?

GOING VIRAL

By
Avishal Seeth
Head: Sanlam Umbrella Solutions
Sanlam Corporate

In 1970, Alvin Toffler authored a ground-breaking book called Future Shock. In it, he argued that society was undergoing an industrial revolution to a "super-industrial society" and that the accelerated rate of technological and social change left people disconnected and suffering from "shattering stress and disorientation"— they are future shocked.

Many of the characteristics of the changes discussed 50 years ago are just as relevant today – ranging from the disposable nature of goods, the rapid cycle of product innovation resulting in designs becoming obsolete quickly, through to the rise and fall of industries and professions due to disruptive technological change. In fact, the rate of change now is far greater than it was 50 years ago and is accelerating into the future.

As an illustration, a company founded in 2003 has grown to be the most valuable car manufacturer in the world despite producing 12 times fewer vehicles than the next most valuable. In fact, Tesla is now more valuable than BMW, Mercedes, Honda and Ferrari combined. That's 17 years of experience compared to about 350 years, but the capability to leverage modern technology is the driver behind these stark differences in future expectations of growth. This illustrates both the dramatic pace and impact of the Fourth Industrial Revolution in an established sector.

In the context of our industry, we have been largely insulated from the impact of rapid technological change and our thesis is that the broader impact of COVID-19 will accelerate the pace of the Fourth Industrial Revolution for retirement funding. In our view, we are on the cusp of a digital revolution driven by the need for resilience, efficiencies, connections, individualisation and an enhanced customer experience. This is not change for the sake of change but in pursuit of the member-centric outcomes of relevance, security, continuity, value, engagement and satisfaction.

In 2019, we flagged the emergent risk of cybercrime as the most critical threat facing retirement funds in South Africa due to low levels of awareness and technical capability across the industry; the general reluctance to evaluate cyber-resilience when considering service providers; an attractive pool of data and assets and an evolving threat landscape. Despite the impact of COVID-19 on markets and consumers, we maintain our view that cybercrime is actually the most dangerous risk threatening members right now and into the future. According to the NTT Global Threat Intelligence Report, Insurance and Finance are the two sectors in South Africa most attacked by cybercriminals. Yet, the lack of urgency to address these risks broadly remains in place. For instance, cybersecurity ranked very low down on the spectrum among consultants who play a key role in advising and influencing decision makers. We therefore need broader awareness among consultants of cyber risk so that market forces can compel stakeholders across the industry to bolster their defences. A threat to any stakeholder is a threat to confidence in the system and we need to build herd immunity to cybercrime to protect members' interests.

The change to remote working and an increased appetite for news and information related to COVID-19 have created new gaps for threat actors to exploit. For instance, using pattern-of-life techniques, cybercriminals are targeting employees working from home to phish for sensitive information by, for example, impersonating their employers requesting security updates or mandatory COVID-19 safety training. While we are busy adapting to survive in this context, the cybercriminals have also adapted to prey upon others using the disruption as a gateway. Mimecast released findings illustrating a dramatic increase in cyber attacks since the beginning of the global lockdown process, ranging from spam through to impersonation and malware. Interestingly, despite being a small player in the global context, South Africans are experiencing volumes of rejected spam per user similar to people in the UK. In fact, something that has gone largely under the radar has been the cyber attack on one of our largest private healthcare providers in the midst of the COVID-19 pandemic. This could easily have impacted the efficacy of a healthcare business in addressing the increased requirements of medical care. It seems hackers aren't concerned with the loss of human life. As before, we call on all stakeholders to treat cyber risk as a priority and make available the Sanlam Cyber Resilience Benchmark as a practical first step to understanding your risk exposure.

It is common knowledge that costs are under pressure across the financial services industry, and rightfully so. A driver of reducing costs and providing efficiencies is the use of contemporary technology to accomplish more for members, more quickly and more cheaply. But this does not have to be at the expense of people. In our view, modern technology should automate the routine and empower people to add more value to other people in a manner that combines the best of tech with human connection to deliver a modernised bionic experience. Examples in practice would include the use of robotics and Artificial Intelligence to streamline routine administrative process, optical character recognition to capture data, member activity feeds, paperless administration, contactless withdrawals and bionic retirement benefits counselling. Not only do such examples, of which there are many more, help to reduce costs for members, but they also carry digital audit trails and unlock the capacity of consultants, human resources professionals and service providers to focus on reconnecting with members.

On the topic of connections, we found that the most popular medium of communication with members during the lockdown has been email. Wider research indicates that 65-80% of employees would open such emails and only 10-15% actually engaged with the content therein. Our inference is therefore that email communication alone is largely ineffective. If we have a genuine intent to connect with members, we have to explore a range of complementary alternative mechanisms to communicate and engage at scale. These can go from simple SMSs to industrial theatre through to YouTube videos. Consultants were quick to adapt to new ways of interacting throughout the lockdown and the majority adopted video-conferencing technology to stay in touch with clients. General feedback is that service providers have been effective during the lockdown, demonstrating operational resilience, support and digital engagement to both sets of respondents. This is a credit to the industry and reflects adaptability in the face of challenging circumstances. An interesting finding from consultants is that their service providers have largely been effective in communicating with them. However, they were largely neutral in their views on communication from service providers to members, while employers/ trustees were of the view that such communication to members was broadly effective.

Turning our focus once again to members, consultants ranked their top advice themes in discussions with employers and funds prior to the pandemic. The most popular all related to members – from communication to engagement to making an impact on members. High-quality financial advice is a factor that has empirically demonstrated such impact and we therefore explored how employers and funds have instituted financial advice strategies in the light of the default regulations. About 10% of consultants indicated that their clients did not have any advice strategy in place and about 40% directed members to seek their own financial advice. In a context where the majority of employees do not have access to their own financial advisor or would be of economic interest to advisors, this is the equivalent of not having a strategy in place. We applaud the 40% of funds and employers who have opted to appoint panels of vetted advisors or implemented salaried advice. Their members are more likely to benefit from such strategies in the long term.

Given the physical distancing requirements of the lockdown, it was notable that 60% of individuals polled were comfortable to deal with their advisors remotely rather than in person. Technological advancement therefore opens up new mechanisms to engage members at scale through the use of Zoom etc. to provide advice, retirement benefits counselling or even financial literacy training. Consultants were overwhelmingly supportive of traditional financial literacy training as 80% indicated that it added meaningful value for members. Education is the cornerstone of being able to make informed financial decisions and we would expect employers and funds to consider how to scale up the breadth of such training into the future making use of the technologies available to do so.

Such training is relevant across the education profile as well as across generations due to systemic low levels of financial literacy. We analysed the generational split of clients administered by Sanlam and found that millennials now account for just under 50% of active contributing members, with Generation X'ers accounting for 40%. Interestingly, we see the emergence of the Generation Z's at 2% of our membership and would expect this proportion to rise as more enter the workforce and as the older generations exit.

An interesting finding from a focus group of 25 to 45 year-olds is that the catalyst for their retirement savings plans was the lived experience of their own parents, who now have poor retirement outcomes. Bear in mind that the current generation of retirees represents those most affected by the radical shift from defined benefits to defined contributions and are bearing the brunt of decisions made over the past 20-30 years. Their experience is impacting the choices of their children, who want to do better. When questioned on how to support them, three issues emerged: they want more interaction from their retirement fund than an annual benefits statement, they need help to manage debt and they want access to financial advice.

The first request relates to implementing an individualised support system for the member, which would not have been possible at scale without enabling technology. Doing so would expand the concept of retirement benefits counselling to proactively engage and inform members of their options, values, and consequences of their decisions at critical junctures leading up to withdrawal from the fund. Written communication alone is ineffective and needs to be bolstered using an omni-channel spectrum of engagement mechanisms, including the intelligent use of fintech. As a case study, we recently implemented a guided video that dynamically adjusts the content in real time to viewers based on their decisions. It's effectively a 'choose your own adventure' for retirement fund members.

While this is a recent innovation, the blend of fintech and a team of human counsellors has demonstrated impact on members' lives, as from those who did preserve, members receiving counselling preserved at a rate 3x higher than those who do not. But the Fourth Industrial Revolution provides additional opportunities to provide this individualised support system to members. Over the course of the pandemic, we have experienced a major market crash and a steep increase in requests from members to switch their investment portfolios. The Sanlam Umbrella Fund elected to deploy the counsellors tactically to engage such members to inform them of the risks of switching during a market downturn. As such, affected members were fully aware of the consequences of their decisions and a small proportion elected to reverse their decisions. In doing so, the Fund was able to responsibly engage members through the crisis and ensured decisions were made with a full appreciation of the potential risks. Another application of this approach is in response to the relaxation in the drawdown limitations on living annuities, where in-fund living annuitants in the Sanlam Umbrella Fund who elect to increase their drawdown rates are contacted by the counsellors to inform them of the long-term risks of doing so to the sustainability of their incomes. Given the breadth of what is labelled 'counselling' in the industry and the varying quality of different capabilities, we have developed the Benefits Counselling Benchmark which stakeholders can use to evaluate the potential impact of the counselling provided.

The use of technology to provide inclusive access to expertise is not limited to retirement funding as we have seen the emergence of telemedicine through the lockdown as a means of providing access to professional healthcare while reducing the risk to individuals and healthcare providers. Sixty per cent of individuals polled indicated that they would be open to using telemedicine and this application serves as another case study of the potential for technology to disrupt long-standing processes and lends itself to further iterative disruption in the healthcare space, which is becoming unaffordable to many employees given their stretched personal finances. We anticipate an increase in the drive to providing split-risk benefits at employers so employees have a greater choice in medical scheme provision that meets their respective budgets rather than being forced into restrictive expensive arrangements.

My final example relates to using technology to solve the elephant in the long-term savings room: DEBT. There are now various providers, including Sanlam, who have implemented credit management solutions aimed at informing individuals of their debt status and providing mechanisms, including telephonic counselling, to better manage their spend as well as their debt. In doing so, individuals now have access to expertise and support to address an issue that still carries a significant social stigma and is the leading cause of financial stress in South Africa. Although typically not in the scope for retirement funds, this aspect of our members' lives has a direct and material impact on their prospects to fund retirement and affects decisions relating to contributions and preservation and therefore cannot be ignored.

Drawing inspiration from the book Future Shock, now is the time to learn, unlearn and relearn so that we can provide an ecosystem of support to people.

I've run through a few examples of how the Fourth Industrial Revolution has been accelerated by the impact of COVID-19 and the lockdown. The institutions that best embrace technological change and combine this with human empathy will be the most effective in addressing the multi-faceted needs of members.

We've come to see that COVID-19 has changed the ways in which we work / interact / live / and simply just are.

We are in the centre of a storm that many don't expect to pass in the short to medium term. The tug-of-war battle happening right now is the decision between human lives and livelihoods. On either side, casualties are numerous. South Africa was in a precarious position well before COVID-19 reached our shores. The arrival of the pandemic has magnified the underlying instability in our economy and the dangerous reality of our societal imbalance. As mentioned earlier, NOW IS THE TIME TO ACT. In the retirement fund industry we often don't appreciate the responsibility we have towards our members and their families and those dependent on them. I have previously spoken of the disconnect between decision makers of retirement funds and those on whose behalf they make decisions. Examples of disconnects are plentiful:

1. The financial situation of Trustees / Joint Forums versus that of the members
2. The education level of Trustees / Join Forums versus that of the members
3. The age of Trustees / Joint Forums versus that of the members (millennials constitute more than 50% of membership yet Joint Forum / Trustee representation is <10%).

The reality of which we must now be cognisant more than ever before, is that we are responsible for 100% of the savings of 95% of our members as they typically have no other savings vehicle outside of the retirement fund to which they belong.

We must take this opportunity to be more connected with the challenges our members face and utilise our range of influence to implement holistic solutions that will undoubtedly improve the livelihoods of our members. In his address to the nation on 24 March, President Cyril Ramaphosa reminded us of the words of Nelson Mandela: 'It is now in your hands'.

For us, leading in the retirement fund industry, I believe it has always been in our hands. We must acknowledge and accept this and ensure we make decisions that ultimately improve not just members' retirement outcomes but also help to improve our members' livelihoods.

Retirement Benefits Counselling

Benchmark

	SANLAM	ALTERNATIVE
Omni-channel engagement including online portal, smartphone app, fund-specific dynamic video, sms and toll-free telephonic	✓	
Robust reporting and feedback provided on engagements and member decisions	✓	
Counselling available in most official languages	✓	
Multiple Counsellors available to ensure convenience of services	✓	
Proactive Counselling Capability to engage members according to pre-defined trigger events	✓	
Seamless transition to Fund appointed financial advisors when advice is required	✓	
Counselling calibrated to adhere to Fund specific default strategies	✓	
Adequately trained and qualified counsellors to convey complex financial topics	✓	
Risk and Quality Control to ensure compliance and peace of mind to all stakeholders	✓	
Paperless exit process for withdrawing members	✓	
Counsellors are not incentivised to influence members towards any particular option or product	✓	
Counselling provided free of charge	✓	

Sanlam

Cyber Resilience Benchmark

		SANLAM	ADMINISTRATOR
GOVERNANCE	Has your administrator established formal governance policies and processes for Information security, information governance, cyber security, third party management, etc. ?	✓	
	Does your administrator have cyber insurance to enable financial stability for significant cyber events?	✓	
PREVENTATIVE	Does your current administrator have dedicated information security staff who proactively identify and resolve cyber security vulnerabilities?	✓	
	Is your administrator's information security staff trained to respond to cyber security Incidents?	✓	
	Does your administrator have processes in place to manage cyber security In terms of: ◥ Prevent data from being stolen from computers (USB port blocking and encrypted hard drives)? ◥ Continuous monitoring of antivirus and anti-malware software to ensure that they are up-to-date?	✓	
	If there are phishing attempts, is your administrator equipped to identify these events and mitigate the risks?	✓	
	Does your administrator have processes in place to restrict system accessibllity? (privileged account management and segregation of duties reviews. etc.)	✓	
MONITORING	Does your administrator have a dedicated team to actively detect and respond to cyber-attack attempts?	✓	
RESPONSE	In the event of an Incident, breach or hacking activity, does your administrator have a programme in place that actively: ◥ Responds to a crisis ◥ Source experts to help forensically investigate ◥ Recover data systems	✓	

BUILDING RESILIENT COMMUNITIES

By
Nozizwe Vundla
Head: Sanlam Foundation
Sanlam

In the past decade alone, Sanlam has invested around R630 million in the financial resilience of Africans. We believe the business sector has a responsibility to holistically support communities to be sustainable in the longterm. This requires a 360-degree approach which empowers people to empower themselves. Ultimately, it's about building capacity and confidence. There are a million moments that encapsulate this.

A teacher who feels renewed passion in her subject. A child who masters multiplications. A parent who feels extreme pride dropping his daughter off at a clean, fully functioning school. An entrepreneur hiring her first employee. These moments of seemingly small success contribute to a bigger picture of a country where people are set up to succeed. To live their best possible lives.

This is the guiding light that informs our mission to do good. We know that where there's collective will and coordinated action, there is hope. We have the privilege of partnering with leaders across the NGO and public sectors. Together, we can effect deep change. We can tap into the ingenuity of Africa's people to develop creative solutions to shared problems. We can make a difference for generations to come.

Here are some of the ways Sanlam believes the business sector can support communities, based on our experience.

WAYS THE BUSINESS SECTOR CAN SUPPORT COMMUNITIES

FOSTER A SUSTAINABLE FUTURE FOR THE NEXT GENERATION

Every year, almost 450 000 children benefit from our numeracy, reading and financial literacy projects. Our Sanlam Foundation is deeply committed to education, from foundational phase up. Globally, there's a dearth of digital-age skills. In South Africa, this skills gap could be detrimental to our young people. Businesses need to invest in growing the capabilities they require. A country that is proficient in maths literacy is better equipped to economically prosper. That means supporting educators as well. Sanlam Blue Ladder Schools have assisted 2000 teachers to date, with a 7-10% average improvement in numeracy levels in the schools we operate in.

Nearly 450 000 children reached annualy with a total investment of more than R100 million since 2015.

CREATE A SUPPORTIVE ENVIRONMENT FOR SMES

Small, medium, and micro enterprises (SMMEs) are the backbone of South Africa's economy and crucial to amending the country's dire unemployment figures. Our entrepreneurs are our game changers. Their success means our success.

Sanlam Enterprise and Supplier Development Programme:

- Over the past 7 years, our ESD programme has:
- Catalysed 3S6 new jobs
- Sustained 2130 existing jobs
- Generated average revenue growth of 24% forparticipating businesses
- We have spent almost R48 million on procurement directed to our programme beneficiaries, and close to 20 000 hours on business development support. All the businesses on our programme are 100% black owned.

CONSUMER FINANCIAL EDUCATION

We have reached more than 50 000 beneficiaries through the CFE programmes we have sponsored. Our beneficiaries were reached via worksites, labour unions, local community forums and universities. The Saver Waya Waya WageWise financial literacy programme of the ASISA Foundation is our flagship programme and has been almost exclusively funded by the Sanlam Foundation since its launch in 2015.

FOCUSING ON WATER SECURITY

This is a mammoth task that will take collective action, especially in the aftermath of COVID-19. One of the ways we're contributing is by being part of the CEO Initiative, which sees leaders from all sectors of society commit to driving positive economic change. To date, the initiative has established the SME Fund, Youth Employment Service (YES), ISFAP (Ikusasa Student FinancialAid Programme) and the Black Industrialist Programme. We have contributed R45 million and have pledged our continued support.

COMBAT UNEMPLOYMENT

Memories of the drought and Day Zero remain top-of-mind. Research suggests the country may run short of 3 000 billion litres of water per year by 2030. Communities need easy access to resources like water to prosper in the long-term. We must focus on water security, which is what Sanlam has been doing through our longstanding World Wildlife Fund for Nature (WWF) partnership.

Close to R60 million in water security through our partnership with WWF-SA since 2007.

Sanlam

As one of the continent's oldest social enterprises – founded in 1918 to empower the marginalised – Sanlam has had a deep impact on the lives of Africans for more than 100 years.

NAVIGATING MARKET VOLATILITY

By
Darryl Moodley
Head: Tailored Investments
Sanlam Corporate

And
Rhoderic Nel
Managing Executive: Investments
Sanlam Corporate

The impact of the novel Coronavirus (COVID-19) has driven market volatility to extraordinary levels during 2020, and in many cases has led to meaningful declines in asset valuations on a daily basis. The SA equity market, along with several global markets, declined sharply by around 35% in just a few weeks during February and March 2020, signifying the largest market fall in history in such a short period of time. Each market downturn is unique and while it is difficult to accurately predict the future, there is ample evidence that supports being optimistic when thinking about the long term. Investment markets have historically recovered from each and every market downturn, including the most recent one, and they continue to grow over the long term.

Most market crashes, however, teach us little that the previous crash hasn't already. Fortunately for many investors and portfolios managers, the 2008 Global Financial Crisis is still fresh in the mind, and the COVID-19 pandemic simply provided a timely reminder of the wisdom of sticking with well-worn investment principles.

1. **A well-diversified, long-term investment strategy is key**

   Covid-19 has demonstrated a strong case for having a well-diversified, long-term investment strategy. And this means ensuring one's strategy includes a carefully crafted combination of asset classes, industries, securities and geographies (both domestically and globally). Selecting individual securities and timing markets are difficult for even the most seasoned investors, and trying to do so in these historically uncertain times will be nearly impossible. So, if one's investments aren't already adequately diversified, now may be the time to revisit them and set in place a diversified strategy that is able to navigate most storms.

2. **Investment goals should be re-evaluated periodically, not just during a pandemic**

   Financial plans are not cast in stone and should be treated as a living document. Life-altering events such as a death in the family, divorce, a large inheritance or job loss can impact one's financial plans and investment goals in a dramatic way. It is also good hygiene to review one's investment strategy periodically (such as annually) or whenever a major life event occurs to ensure the strategy is still appropriate for the revised goals.

   While a market crisis may affect the current investment value of one's investment strategy, many investors are prompted to re-evaluate their investments only during a crisis. Checking on them only during these times (or indeed too often) can create unnecessary stress and anxiety, especially if the intention is to invest for the long term, such as a retirement fund investor would.

3. **Invest for the long term, but at each stage of the journey, risk also needs to be addressed**

   Attempting to triumph over rampant market volatility is often an exercise in futility. It is therefore vital that a retirement fund strategy addresses the key risks at each stage of the journey. For an investor who is still many years away from retirement, the main risk relates to not accumulating sufficient assets over the longer term. These investors typically have time on their side and should have the tolerance to harness market volatility in the pursuit of higher investment returns.

   However, retirement fund investors close to retirement may not have time on their side to focus on the long term and ride out market crashes. A market crash just prior to retirement can be devastating for investors who have meticulously followed their investment plan over their working lives only to be thrown a curveball at the most crucial time. The key risk then relates to not being invested appropriately for one's post-retirement strategy. This typically means a more defensive investment approach might be appropriate – one that focuses on risk reduction rather than return maximisation.

   Many investment providers term such strategies "lifestage" or "goal-based" investments, but the devil is certainly in the detail. These types of strategies aim to address the perceived risks at the various stages of the retirement journey, but many investors still do opt out of those types of "default" arrangements. They typically construct their own strategies, often by combining a selection of portfolios that target a specific performance objective. The risk then lies in being able to adapt these strategies as one approaches retirement to cater for the relevant risks, such as a market crash.

While these enduring investment principles may not be exhaustive, paying them the necessary respect can certainly improve the odds of achieving a secure retirement. At Sanlam, we have noticed that the number of investors who switched from aggressive equity-centric portfolios to defensive strategies (such as cash) increased significantly during the COVID-19-induced market downturn. For long-term investors, such impulsive panic-induced decisions have the potential to make a severe dent in their long-term investment goals, especially since investment markets recovered strongly a few weeks after the downturn and those investors would unfortunately have "locked in" the market losses.

In an environment in which market volatility has become the norm and there are constant shifts in the investment landscape, investors should not lose hope. Just like dark clouds usually move to reveal a silver lining, investment markets tend to move in the right direction over the long term. And even though economic conditions in SA and globally cannot be controlled directly, a good foundation can be laid for the future by making investment decisions based on sound principles, and allowing the investment professionals to safeguard portfolios during turbulent times.

SHIFTING LANDSCAPE IN MEMBER ENGAGEMENT

By
Barend le Grange
Head: Individual Member Support
Sanlam Corporate

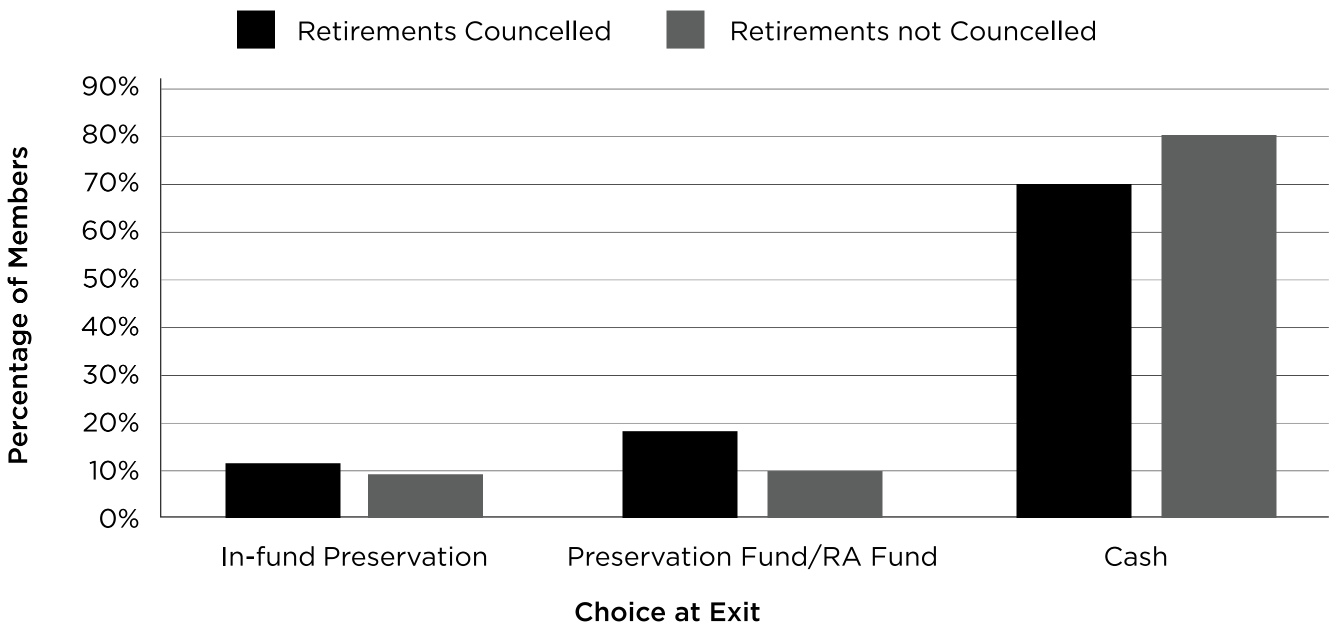
Retirement Benefits Counselling was introduced as part of the Default Regulations that became effective on 1 March 2019. This included giving the member access to information on a fund's 'default' strategy prior to withdrawal and retirement. The majority of funds put in place a multi-channel engagement model to service members with whom they had relatively low direct contact before. This generally included engagement via the web, email, SMS and telephonically.

While the pace of implementation between funds, consultants, administrators and product providers was different, the market quickly adjusted to this new world. Perhaps the first notable and seemingly lasting divergence observed is whether a fund chooses to let its members engage reactively or opt to do so proactively.

Now, while some might argue that bulk generic emails sent to 'all members' qualify as proactive engagement, a quick investigation into email open rates (of those that have valid email addresses), as well as the overwhelmingly poor outcomes of members reaching retirement, might convince you otherwise.

And that touches on one of the biggest flaws in current member engagement models: the lack of data to support and inform decision making. It can range from simple metrics such as the percentage of members who open the emails sent, to more difficult ones such as the extent to which members engage online. As an example of a question that could (and more likely should) be asked, below is the effect of counselling at withdrawal on member outcomes for Sanlam Corporate for the first three months of 2020.

IMPACT OF RETIREMENT BENEFITS COUNSELLING AT WITHDRAWAL



This is an example of a metric that should be looked at in order to gauge the effectiveness of Retirement Benefits Counselling. It should be clear that without the proper data backing decision making, many choices regarding methods of engagement are guesswork at best, and more likely a waste of members' already limited savings.

Well, perhaps not, as many funds are providing some form of Retirement Benefits Counselling for free. Inevitably, the cost of providing any service is borne by the member, but there are factors that disproportionately influence the cost to the member. Let's look at two of the biggest factors:
Firstly, and perhaps most obviously, larger membership bases serviced should lead to the ability to better leverage economies of scale to drive down cost per member.

Secondly, the capability to track the effectiveness of member engagement to ensure that where costs are incurred, it's done in the best interest of the members and has a measurable impact.
Over time, a combination of these two points can be quite powerful. For example, consider a situation where members' preferences are understood well enough to maximise the likelihood of engaging with them in their engagement channel of choice, at a time they would prefer. (This might sound unrealistic and far off, but let me assure you, it's definitely not.)

In line with these trends, Sanlam Corporate now has the ability to deliver a personalised, interactive video to members before their retirement. Such diversity in engagement channel is also becoming increasingly important, with companies like Google stating that 6 out of 10 people would rather watch online videos than television, or Insivia stating that mobile video consumption is rising by 100% every year.
The need for direct member engagement through Retirement Benefits Counselling has further shaped the employee benefits industry. What has essentially been developed is not a Retirement Benefits Counselling mechanism to communicate with members prior to withdrawal and retirement, but a direct member engagement capability that can be leveraged for a variety of member engagements. Especially those that are specific to certain member groups or need a more personalised touch.
Funds should now be able to utilise engagement capabilities created to improve experiences and be able to better respond to challenges facing the industry. When COVID-19 broke out in South Africa, the Sanlam Umbrella Fund noticed a spike in the number of member switches into more conservative assets. Subsequently, they leveraged off their member engagement capabilities to contact each member who wanted to make a switch, to highlight the potential risks of moving to conservative assets during a market slump. The result was that 11% of members opted not to go ahead with the switch.

But COVID-19 has not only accentuated the need to be able to rapidly respond to events in an increasingly volatile world. It has also accelerated the adoption of digital tools by all members and very likely has increased how comfortable members would be in engaging through digital channels.
Finally, financial advice unarguably still remains the most comprehensive engagement any member can have for considering his or her holistic financial situation. We know many members do not have access to advice. Having fund-vetted advice structures in place will not only inevitably lead to better outcomes for many members, but also has the potential to significantly expand the reach of the membership base that receives advice. With many advisors also adopting digital tools as part of their advice practice, there is a golden opportunity to provide financial advice to a previously underserviced market.

With member engagement constantly coming to the fore as a top theme in our Benchmark research, its importance can no longer be overlooked. The possibility to make a meaningful difference in the financial lives of members and ensure better retirement outcomes has never been greater.

THE RISE OF DIGITAL ADOPTION

By
Tebogo Legodi
Digital Lead
Sanlam Corporate

The Covid-19 pandemic has changed the world in many ways, but the most profound change is the way in which digital transformation has accelerated. Over the past few years, Sanlam Corporate has been on the digital journey with the aim of simplifying retirement fund administration and improve member retirement outcomes. Sanlam launched innovative solutions and robust financial education solutions and tools with the intention to bring about a change in the retirement industry. However, the adoption of these tools has been disappointingly low due to multiple factors such as member apathy, lack of digital literacy, low level of access to connectivity, and lack of digital drive by employers.

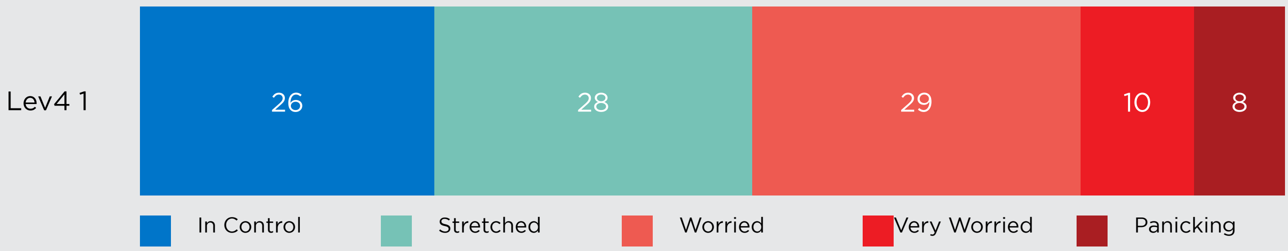
Lockdown measures to contain the spread of Covid-19 have highlighted the fact that our vision to empower employers and members through direct platforms is sound. Covid-19 has accelerated adoption in a short space of time and amplified the need for digital solutions due to increased uncertainty leading to a drastic change in member behaviour. Now, more than ever, it has become clear that retirement fund members need to remain financially resilient during tough times and that this can only be achieved through information, education and transparency. Digital solutions required to address these needs are already in place.

REIMAGINED VALUE CREATION

Covid-19 and the lockdown have pushed digital transformation to the front of the line as the value of digital channels, engagements, products/services and operations is immediately obvious to members and employers. In South Africa, consumer behaviour and digital needs have significantly shifted towards e-learning, increased demand for online servicing embracing online shopping, which has accelerated e-commerce in South Africa by 3-5 years, while on the other hand, telecommunication companies have dropped data-bundle prices to resolve access issues.

REIMAGINED VALUE CREATION

6 weeks into lockdown, and only 26% feel like they are in control of their financial predicaments.



47% are worried or panicking about how they are going to manage, and by the first week of level 1, more thank 50% had already lost earnings. Not a pretty scene.

Source: Alltold Research 2020

According to the All Told SA COVID-19 study, 47% of the 1 500 economically active respondents were worried about how they are going to manage financially. The need for financial service providers to provide online transactions is no longer an option for FSPs, but a basic need. These growing needs are as a result of people feeling very insecure about their financial means.

We have analysed Sanlam member digital trends and noticed a change in behaviour as a result of the lockdown. We have seen a significant increase in digital activities such as viewing of fund values, drawing benefit statements, and updating beneficiaries. According to Stats SA's report on the impact of COVID-19 on employment, income and hunger, 8% reported that they had lost their jobs or had to close their businesses, and 1,4% became unemployed. The study correlates with the interest shown in member digital platforms, where members are exploring tools to understand the impact on tax if members were to change jobs or be retrenched as a result of the economic lockdown.

Another interesting trend is investment choices. There has been a 56% increase vs March 2019 in members viewing investments portfolios. As a result of the investment portfolio views there was a 33% increase in the submission of investment choices online in March 2020 vs March 2019.

Digital transformation allows retirement funds to provide unprecedented value to members. Success in the digital age demands a fundamental shift in how employers deliver value. Reimagined value creation, the first step towards digital transformation, is to change the way we think of a role an employer and fund can play to create a better experience for a changing workforce. As we know, millennials make up the biggest proportion of the working population in South Africa.

According to Sanlam member profile, digital natives have become the dominant segment, accounting for almost 50% of the membership. This is a generation that has grown up with an infinite amount of information at its fingertips. There are set needs for each generation, but it goes without saying that the older worker's needs are not different, they too are familiar with technology. A change in the demographics of today's workforce requires a change in engagement models by providing a more personal experience - a more engaging, relevant and entertaining experience. There is a heighted need for consistent touch points, experience and personalising information to increase member engagement with benefits, leading to more take-up and retention.

ENGAGED EMPLOYERISM

The overnight digital shift requires employers to empower members to make the right financial decisions by utilising the latest technology. These forces of change are outside of the retirement fund industry but are to be managed if the industry is to be successful. Member education is critical to the adoption of digital solutions because availability of tools does not mean members know where and how to access them.

Employers must understand:

- What technology is on the market
- Whether it matches employee needs
- How it will integrate with their employee communication strategy
- How to keep an eye out for new developments.

The objective is to align employer communication channels to support employees in adopting digital tools.

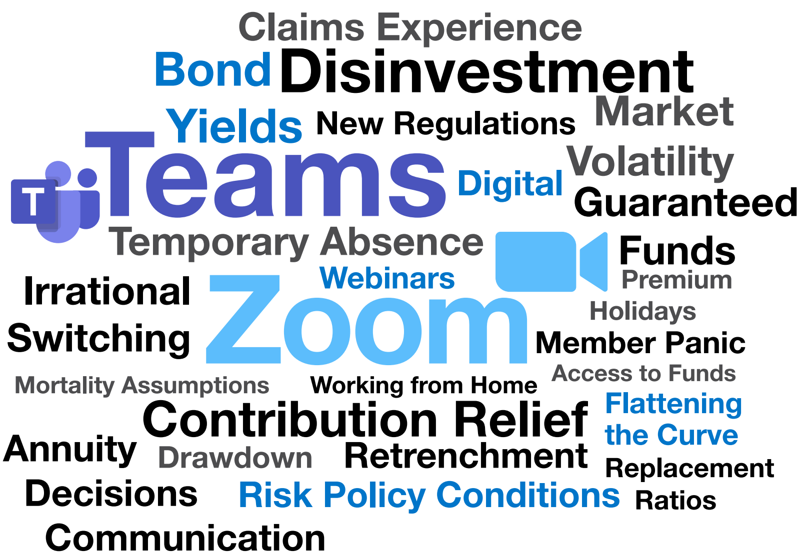
By utilising the technology available and properly communicating the functionality and importance, employers will see increased participation and higher employee confidence in their personal finances.

SERVICE OF HUMANITY MARKED BY CREATIVITY AND A COMMON PURPOSE

Talks and discussions emerging at technology conferences are about how Covid-19 has accelerated the move towards the Fifth Industrial Revolution (5IR). The focus of this Revolution is how technology will bend back towards the service of humanity, marked by creativity and a common purpose. As we look forward to the future and prepare for the Fifth Industrial Revolution, the question we should ask ourselves is: How can retirement funds make the world 'better' rather than just 'more efficient' or 'more productive'? While the change is happening rapidly, the retirement fund industry has to accelerate the rate of adoption and employers must understand the technology available to help members make better financial decisions.

LESSONS FROM LOCKDOWN – A CONSULTANT'S PERSPECTIVE

By
Riaan Botha
Head of Benefit Consulting
Simeka Consultants & Actuaries



We already had quite a bit going on in our industry with the economic downturn, default regulations, muted investment returns ... and then this happened. There is a lot of commonality in COVID-19 and lockdown experiences across geographies, industries and individuals. I am going to zoom in through the lens of the employee benefits consultant and reflect on some valuable lessons learnt and realisations that have dawned on us over the past few hectic months.

CUTTING THROUGH THE NOISE

Information overload, meeting upon meeting, and many opinions became the order of the day – merely keeping up with what's been happening out there has been an exhausting effort. It requires a depth of legal and technical resources and industry experience filtering through this at the required pace, so that consultants are enabled to guide clients through the complexity and turmoil.
The lockdown has been a true test for the operational efficiency, calibre of resources, and strength of client relationships of consultancies.

DIGITAL CATALYST

Digital solutions are nothing new. Significant investments have been made across product and solution ranges over a number of years – impressive for business pitches, but low in real take-up.
It's been a continuous effort changing the behaviour of the technological laggers. A forced change in modus operandi has cemented new behaviours that are here to stay – for consultants, providers, funds and members.

Electronic agenda solutions not only save paper, but also centralise document management, are cost effective, and better address cyber security.

In most instances, trustee and committee meetings are managed successfully via online platforms, although logistical and connectivity challenges will remain for some. Reducing the travel load will bring obvious efficiencies for consultants and clients.

Quarterly meetings are insufficient in dealing with the rate of change. Digital solutions will enable more regular and focused meetings, which have become unavoidable for decision makers.

IT'S ABOUT BALANCE

There is no replacement for building and strengthening client relationships through real face-to-face engagement. Post lockdown, it will be about balancing the new way of online connection with the personal touch. It will be challenging convincing prospective clients to appoint you as consultant via a disrupted two-dimensional visual engagement.

Similarly, the consultant workforce will drift apart to some extent if working from home is not balanced with office attendance and team sessions. This is especially relevant for younger people who would learn better in an office environment. Not everyone has a work-friendly home environment.

THE AGILE ALL-ROUNDER

Good consultants thrive in challenging and complex times. This is when most value can be added to clients by solving their unique problems in a properly researched and pragmatic way. The lockdown has tested technical and product knowledge, management consulting ability, fast learning, adaptability, benefit architectural insight, implementation and project management skills – jack of all trades and master of some. Having access and being able to involve highly specialised resources are equally important.

The lockdown has also tested how consultancies went about their business. It has demonstrated the difference between a strategic business partner and a service provider, and between a complete consultant and a broker.

TAKING A BIT OF A BLOW

Compared to other industries and professions, employee benefits consultants have not been the hardest hit by the immediate impact of COVID-19 and the lockdown. In fact, the workload has increased as a result of various regulatory changes and many clients being in distress. In terms of the business model, income is often linked to the headcount, asset base or payroll of institutional clients. The economic pressure is likely to reflect more prominently in employment numbers from the third quarter onwards. This is expected to result in a strain on consulting income while having to maintain an increased workload, even after allowing for the efficiencies of the new way of work.

WHO IS THE CLIENT?

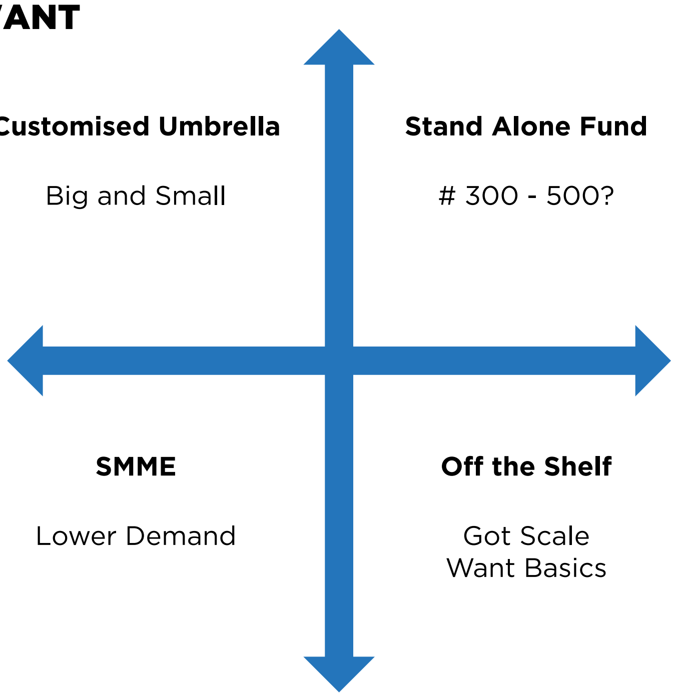
Although the traditional role of technical advisor to institutions remains critical, the focus on the individual member is paramount. While Default Regulations already demand individual member focus, the lockdown demonstrates the importance of targeted communication, education, counselling and individual advice in times when members are panicking and are faced with tough financial decisions.

WHAT IS CONSULTING?

Consultants are mainly regulated on advisory and intermediary functions in respect of employee benefits-related products. The fixation on independence also stems from the consultant's relationship with product houses and the management of conflicts of interest.

Although broking functions are key, there is a lot more to do. Technical and strategic advice goes beyond products. Consultants are solution architects and implementers, fulfil secretarial duties, and are instrumental in individual member strategies. They are also pivotal in stakeholder management and the smooth operational functioning of the client's employee benefits ecosystem.
The future for consultancies is offering a holistic value proposition across healthcare, wellness and retirement benefits at institutional and member level.

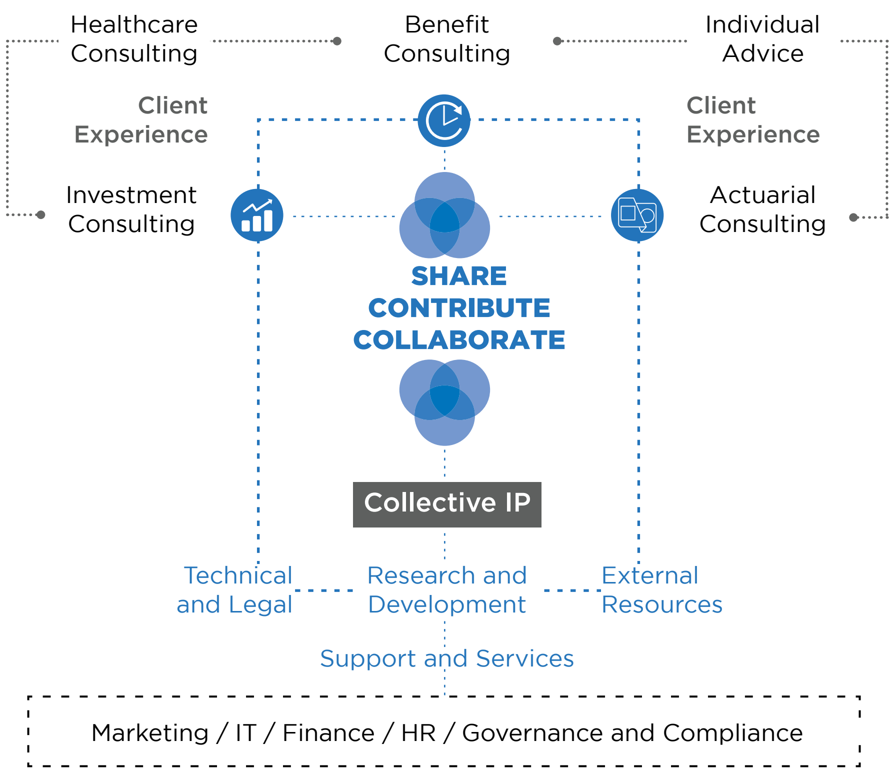
WHAT CLIENTS WANT



Initially it was SMMEs converting to umbrella solutions on economies-of-scale principles. Umbrellas started as pure products and transformed into flexible platforms. Larger clients with a lower appetite for customisation, control and governance then converted too. More recently, default regulations have placed an additional onerous burden on trustees and the regulator is tightening the screws – a lot more is required parallel to primary business. The lockdown has intensified it all, which will trigger a third wave of conversion and consolidation. The expectation is that 300 to 500 stand-alone retirement funds will remain.

The different client segments as illustrated above require consultancies to have cleverly designed and transparent value propositions for each. It starts with listening and understanding what clients want as opposed to pushing a predetermined offering. The key is to get the mandate clear early on and align it with the client's interests. Clients may want anything ranging from a specialised component of advice to a holistic implemented employee benefits solution.

SETTING UP PROPERLY



The Retail Distribution Review formalises the rules of engagement for consultancies and is expected to be effective soon.

The key asset of a consultancy is its intellectual property which, in its raw form, consists of the skills and knowledge of its people, learnings from ongoing client experiences and research.

Consultancies require operational platforms that enable collaboration, sharing and contributions from all components, which then convert intellectual property from its raw form to customised solutions. Silos need to be broken down and access is required to essential supporting resources.
Getting this right will set consultants up as **thought leaders**.

HEAVY AGENDA

Consultants have their work cut out. Top of the list are investment themes such as default strategies; market volatility; infrastructure funding; environmental, social and governance factors; and prescribed asset dialogue.

Annuity product research remains key as retailisation in the institutional space drives innovation, resulting in narrowing pricing gaps
.
The lockdown experience will influence future risk policy conditions and pricing, especially affordability of traditional permanent health insurance benefits.

Individual member engagement, counselling and advice solutions remain fluid, with early experience and learnings unfolding post the commencement of default regulations and fintech drives. Certain clients go beyond the minimum requirements, giving rise to a fee-for-service model covering all employee categories. Retrenchments will require specific focus.
The Financial Sector Charter will demand real transformation strategies for retirement funds and service providers.

In the stand-alone fund space there will be increasing demand for demonstrating governance assurance.

Consultants with actuarial capabilities will empower decision makers with valuable analytics and management information. Actuaries will assist clients in addressing benefit projections and sustainability testing requirements. With extreme short-term market volatility, temporary relief strategies and operational challenges, mismatching and processing risks have increased. Even valuation-exempt funds may require an actuarial investigation for 2020.

The ongoing debate regarding the concept of a retirement date, various savings goals such as housing or emergency funds, and accessibility of funds will shape the future.

$$\textbf{Future} = \sum_{k=0}^{\infty} \boldsymbol{Now(k)}$$

Consultants are more than advisors. They are employee benefits solution architects and implementers. Looking ahead, consultants have to be hands on with immediate issues, do the basics exceptionally well, and bring some x-factor to the game. In essence, the future is the sum of all present moments.

UNDERSTANDING A WITH-PROFIT ANNUITY

By
Karen Wentzel
Head: Annuities
Sanlam Corporate Investments

And
Patrick Cameron-Smith
Actuary: Annuities
Sanlam Corporate Investments

WHAT IS A WITH-PROFIT ANNUITY?

A with-profit annuity provides a guaranteed income for life with increases dependent on performance of the underlying investment. The bonus formula depends on market returns, but is less volatile due to the application of smoothing weights. Decisions about the increases are partly subjective, as they allow discretion of how to distribute profits, from for example mortality experience. Such decisions are however well regulated and made by experts and actuaries in the industry.

WHAT IS A PURCHASE RATE?

The purchase or discount rate is the net investment return required to provide a level pension. The lower the discount rate, the more it costs to purchase a given initial level of pension but the higher the expected future increases in pension. Once a bonus has been declared, the purchase rate is deducted from the bonus to determine the increase e.g. with a declared bonus of 10% and a 3% purchase rate, the pension increase will be 7%.

WHAT IS THE PHILOSOPHY FOR DECLARING BONUSES?

The aim with bonus declarations is to transparently declare bonuses in line with the stated bonus formula, based on underlying fund performance, subject to adjustments based on the mortality experience of the pool. Subject to these criterion, a bonus as high as is deemed sustainable will be declared.

PLEASE EXPLAIN THE RISKS COVERED BY A WITH-PROFIT ANNUITY?

In a with-profit annuity, the longevity and investment risks of an individual is carried by the insurance company. Pensioners receive a guaranteed monthly income as long as they are alive. For joint life pensions, the spouse will receive a pension after the death of the main pensioner until death. Even if the underlying portfolio returns are negative, your income cannot decrease, although poor returns would limit the increases.

WHO SHOULD INVEST IN A WITH-PROFIT ANNUITY?

Investors in a with-profit annuity want some investment exposure to market returns of a balanced fund. These investors are willing to take a bit of risk to earn some upside potential, but also want the security of a guaranteed pension as long as they live.

WHAT ARE THE MAIN FEATURES OF THE NEW SANLAM WITH-PROFIT ANNUITY?

Sanlam is launching a new with-profit annuity in July 2020, which will be suitable for group outsources and individual retiring from pension and provident funds. The main features of the with profit annuity are:

- Low fees
- Stable increases
- Transparent increase formula
- Reputable brand
- Strong guarantee

In re-thinking how we offer a with profit annuity, Sanlam hasn't simply focused on creating a technically solid product, we've also worked hard to build a product and a team that you and your client can rely on for life.

Turning 100 in 2019 was a significant event for Sanlam, not simply because we were celebrating a century in business, but more signifying that our business has been a trusted partner for hundreds of thousands of people over these years.

For clients planning to place their funds in a retirement annuity with us today, there's an inbuilt level of trust that Sanlam will stand by them for the duration of their lives and continue to make ethical and sustainable decisions with their funds.

With the right structuring we have been able to develop a WPA with competitive fees on a relative basis. We've priced our product to give the best opportunity to provide future increases. This is crucial to uphold the commitment being made to members, to ensure we do the right thing with their funds and offer a realistic future. We see our new WPA as being a solid option for funds for their preferred solution for a default annuity.

QUESTIONS TO ASK YOUR ANNUITY PROVIDER

Comparing different with-profit annuities and products from different providers is a difficult and complicated exercise. There is a huge responsibility for funds to do the right thing and steadfastly offer ethical pricing. It's also a product where there are a limited number of service providers to choose from.

We present some important questions here, that you should ask your with-profit annuity (WPA) provider before buying an annuity product:

1. ARE MY FUNDS BEING PLACED WITH A COMPANY I CAN TRUST TO SURVIVE FOR THE REST OF MY LIFE?

   Get information about the company's financial stability, the solvency ratio of the insurer and report of investment analysts.

   Investment analyst views on Sanlam:

   "... Even if there were two catastrophic events on top of Covid-19, they will still have enough money to maintain solvency ratios.... They will be able to pay out claims. It just tells you what high-quality that company is and how much it has in the bank. They way they've invested their shareholder portfolio – they've been very smart..."

   Chantal Marx, Head of Equity research
   FNB Wealth and Investments

2. HOW ARE THE INCREASES CALCULATED?

With-profit annuity products designed in the '90 were often referred to as "black boxes" due to discretion of the providers to determine the increases, despite that such decisions are made by experts (actuaries). Current product providers should be able to give you details about the way increases are calculated and any discretionary adjustments that may apply. Investors should get clarity how recent low and negative market returns due to Covid 19 and the rating downgrade, will influence their future increases, since bonuses are often calculated using weighted recent returns. This might prompt some further questions such as:

What is the level of investment participation in market returns?

Do bonus smoothing reserves or funding levels from recent poor market performance adversely affect new policyholders' initial increases?

3. HOW WILL THE ADMINISTRATION AND THE SERVICE CAPABILITIES OF THE PRODUCT PROVIDER BE RATED?

Previous experience from clients will be the best barometer for administration efficiency and service excellence.

4. WHAT IS THE LONG-TERM TRACK RECORD OF THE PROVIDER AND WHAT IS THE EXPECTATION OF THE LEVEL AND STABILITY OF BONUSES?

Realistic return and sustainable, stable increases over the long term should be a feature before opting into a WPA. Looking at recent increases and the impact of the economic conditions on future increases will give an understanding of the sensitivity to market conditions. The stability of back-tested bonuses is a key reason for the structure of the new Sanlam WPA, which offers additional stability within the product based on its asset allocation and smoothing.

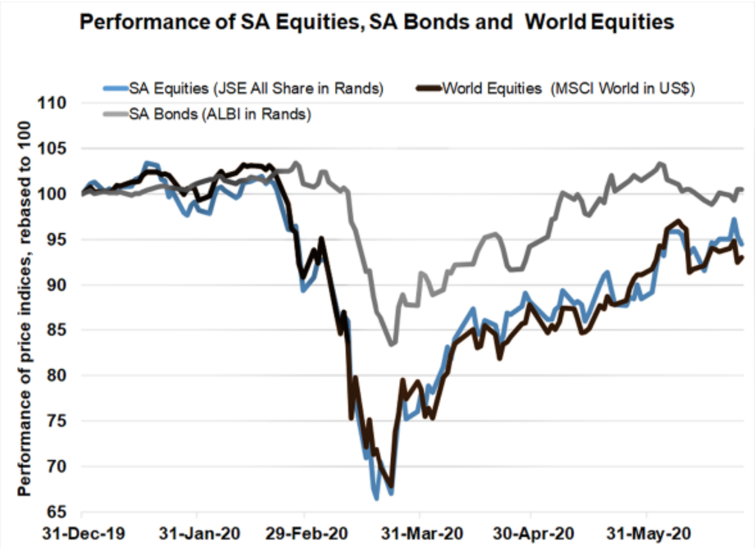
GRABBING INVESTMENT OPPORTUNITIES BY THE END OF COVID-19 WITH BOTH HANDS

By
Alan Wood
Head: Investments
Simeka Consultants & Actuaries

And
Solly Tsie
Head of Research: Investment Consulting
Simeka Consultants & Actuaries

In a trade-off between saving lives and saving livelihoods, governments around the world implemented lockdowns to flatten the spread of the new coronavirus (COVID-19) so healthcare systems would not be overloaded. The consequence of lockdowns was that the global economy has come to a grinding halt, probably destroying the livelihoods of millions of people across the globe. The "Great Lockdown" will create deep economic wounds we will be licking for many years to come.

Equity markets across the globe recorded their sharpest declines in recent history from around mid-February 2020 until around the fourth week of March 2020. Bond markets and credit assets continued their sell-off well into April 2020. Equity markets have since experienced one of the quickest recoveries in history, directly as a result of unprecedented global synchronised financial and fiscal stimulus that has been pumped into economies across the world.

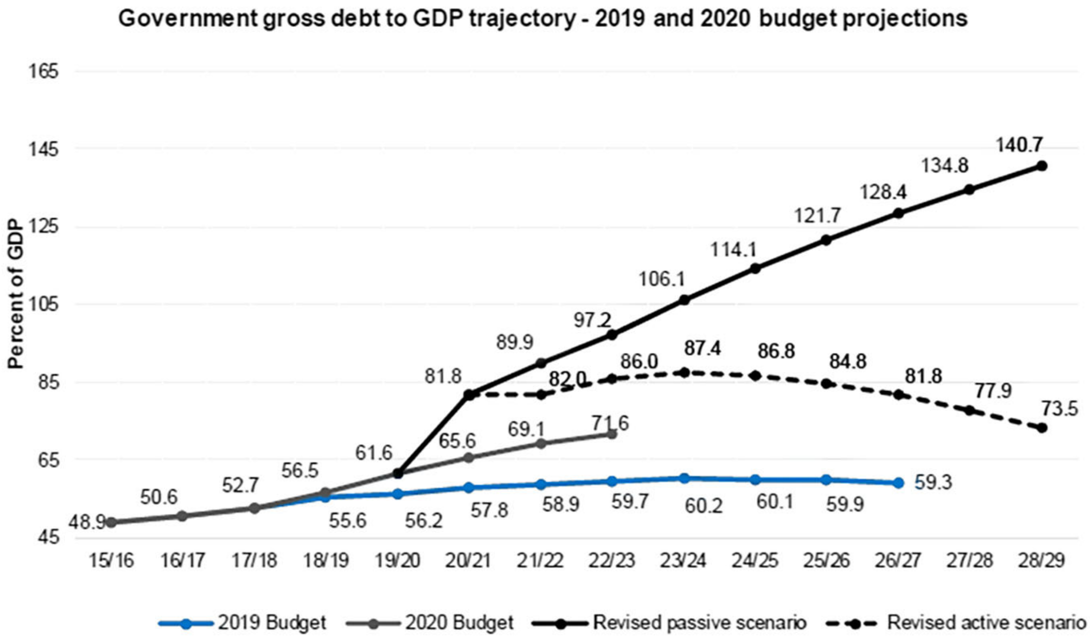


Source: IRESS

As countries relax lockdowns and restart business activity, we are entering one of the most uncertain periods of global economic activity since the Great Depression. There is no doubt that 2020 will be the deepest recession ever recorded in South Africa, with optimistic forecasts now sitting at more than -7% GDP contraction for the year.

The world economy appeared to be robust at the beginning of 2020, but upon closer examination we can see it had been fraying at the edges for some time. In 2018, the US started a process to unwind unsustainably low interest rates. However, a US/China trade war ensued, there was rising populism in Europe, and uncertainty created by unresolved Brexit issues put a halt to that strategy. In a surprise move, the US Fed changed course early in 2019, easing monetary policy in an attempt to ward off a possible recession in the US in 2020 or 2021.

South Africa, on the other hand, entered 2020 in a very weak economic position, largely attributable to bad economic policies over the past decade. Perhaps COVID-19 will prove to be the "straw", or maybe the "log", which "breaks the camel's back". The graph below shows that the SA debt level, which had already been revised upward in the 2020 budget, is expected to skyrocket due to the impact of financial support because of COVID-19. Many governments around the world are also facing this issue; however, our debt levels are already high when compared to our emerging-market peers. The drop in income tax revenue caused by the expected 2020 recession, the hundreds of billions that will be spent by Government to pull our economy out of the pit, and mismanagement over the past decade have put us firmly on a path where there is a high chance we will be drowning in our own debt pile in the very near future, unless Government acts quickly to rescue the situation. The National Treasury pointed out in its Supplement Budget Review, released in June 2020, that if nothing is done about the current situation undesirably low economic growth will persist even after the COVID-19



Source: Graph sourced from Prescient Investment Management, based on data from National Treasury

crisis and the cost of servicing debt will increase to crowd out other public spending on health, education and other policy priorities. The National Treasury has termed this the "passive scenario" and debt levels are projected to spiral out of control under this scenario, as shown by the graph below. The passive scenario will lead to a vicious cycle where the government will be unable to pay its debt. Business confidence will plummet further, the private sector will be reluctant to invest in the economy and there will be a flight of capital. It is scary to consider that National Treasury has openly admitted that we are already on a path to destruction, which they say we need to reverse through active intervention. The alternative scenario is an "active scenario" under which the government stabilises debt and speedily implements substantial reforms to boost economic growth.

Infrastructure spending has also been seen as one of the enablers to stimulate growth. Discussions on implementing a sustainable infrastructure programme started gaining traction in February 2020. In his address during the Sustainable Infrastructure Development Symposium of South Africa in June 2020, President Ramaphosa mentioned that infrastructure spending could reduce the cost of doing business, create jobs, increase capacity in the economy, increase productivity and improve sentiment and business confidence. It could even attract foreign investment into South Africa. The government has endorsed this scenario to promote fiscal consolidation and stabilise debt by 2023/24, as shown in the graph above.

For long-term investors, including retirement funds, it is important to consider broad scenarios within which possible investment opportunities can be outlined. The developments on the spread of COVID-19 and interventions to curb the spread will play a role as well.

The fact that National Treasury has labelled a low-road scenario as “passive” is worrying. This implies that we are already on the path to a failed economic state and positive interventions are required to change course. Any rational long-term investor has to assign a meaningful probability to a low-road scenario. This is problematic, because rational investors do not willingly invest in a failed economic state, which may explain why there has been so much discussion and debate around prescribed assets.

An alternative scenario is the active strategy, where Government is able to implement economic policies that enable the economy to grow and contain debt levels. Under this scenario, business confidence improves and investors become willing participants in helping the economy recover from the destruction of the past decade followed by the sudden massive impact COVID-19 has had.

As with all scenario planning, it is likely that we will end up somewhere in between the two extremes. However, sentiment is unfortunately currently swayed towards the low-road scenario due to a history of poor implementation and policy direction. Investment opportunities built around the South African economic recovery theme are emerging from the private sector and Government. We also need Government to act decisively and speedily to build an investment-friendly enabling environment.

HUMANISING THE WORKPLACE: A HUMAN CAPITAL PERSPECTIVE ON HOW TO SUPPORT EMPLOYEES THROUGH THE CRISIS AND BEYOND

By
Dr. Matete Lerutla
Managing Executive: Human Capital
Sanlam Corporate

In a split second the entire universe was turned on its head and the anticipated changes of the Fourth Industrial Revolution were fast-tracked. What companies thought would be an incremental integration of digitisation, the Internet of Things, artificial intelligence (AI) and robotics into their respective practices, was forced to take effect. The current reality is posing a serious threat to the lives and livelihood of people. The pandemic represents a classic disruption for employees and work, as businesses are reinventing existing operations and recalibrating for a "new normal". Employees are not only threatened by the potential displacement of their jobs by digitisation and AI, but also by the potential loss of loved ones, possible loss of income, threats to job security, heightened cost of living, debt and lack of emergency funds. These concerns are taking a toll on employees' emotional and mental well-being. The impact of the COVID-19 pandemic will be felt well into the future. Leaders and their human capital teams need to adapt quickly and meaningfully to the changing world of work and ensure their organisations are well positioned coming out of the pandemic as they prepare for the "new normal".

Prior to the pandemic, it was predicted that the demand for remote work would increase by 30% by 2030 due to the entry of Generation Z into the workplace ("*2020 Future of Work Hidden Trends: Rising Demand for Remote Work*"). The COVID-19 pandemic has accelerated this trend, forcing many organisations to move a large proportion of their workforce to remote work. Many organisations anticipate that at least half of their employees will want to continue working remotely. The ability of employees to work remotely will make it possible to fulfil multiple responsibilities simultaneously, especially for those remaining to work virtually. This balancing of personal lives and work will inevitably result in employees bringing their whole selves to work in ways we never would have imagined before. According to Gartner's research, while the toll of balancing work and life has long been reported, recent data shows that at least two out of every three employees feel more stressed now than before the pandemic.

The pandemic is a humanitarian crisis, and organisations must be prepared for the very human reactions that will occur during the return to the workplace. HR leaders need to anticipate what different employee segments will require and respond accordingly. They will need to keep in mind the multiple responsibilities that extend beyond addressing employees' feelings of safety, to include the psychological, social, mental and financial well-being of their workforce. Organisations will need to treat employees firstly as people and secondly as workers. The success of any organisation will depend on the extent to which it has its employees' interests at heart and implements employee-centric value propositions.

It is important to note that the decisions companies make today will determine their employment brand and talent management success for the next few years. The workplace needs to adopt a humanitarian approach to matters relating to the workforce. Employees can no longer be treated as a means to an end, but as critical stakeholders whose holistic well-being is vital to the overall success of the organisation.

Below are five ways that can be considered to enable ongoing employee support:

TRANSPARENT COMMUNICATION

Employee-centric solutions need to be guided by data insights from the employees. The first step to providing the support required is to understand how their needs have changed during the pandemic. Line managers need to take up the challenge to be open and transparent with employees and allow for dialogue on matters of emotional and psychological stress. Employees will increasingly rely on their managers and leaders for direction and guidance on how to work and succeed in the new work environment.

It is also critical that organisations regularly communicate information to employees and create opportunities to share ideas and co-create strategic decisions. Business leaders must ensure congruency between what is communicated and their culture and values. These types of engagements will go a long way in building trust in the workforce.

HUMANISE THE WORKPLACE OF WORK

Life events and scenarios such as births, household chores, family illnesses, and caretaking responsibilities will become increasingly important to employees. It will be imperative for organisations to review their employee benefit offerings, allow for more flexible employee benefit contributions, provide options for employees to opt out and opt in when their personal circumstances demand, and reduce work-related expectations when employees face personal and professional conflicts. Leaders will need to focus more on integrated and comprehensive wellness benefits to promote physical health, improve psycho-emotional wellness and foster financial wellness.

Providing tools to support employees' holistic well-being will become even more critical for business and HR leaders. For example, organising virtual peer-to-peer support programmes for employees to discuss challenges and solutions with regard to different topics such as stress, relationships, burnout, and caregiving, and purposefully setting out recurring mindfulness breaks, where employees can take time to meditate or reflect, are an easy way to ensure employees have opportunities to recharge and focus on their emotional well-being during the work day. By demystifying psycho-social stress and providing platforms where employees can share their anxieties and feelings with peers and learn coping mechanisms from one another, the workplace will truly feel humane. Not only will such platforms serve as a source of peer support for employees, but they could also provide rich insights for HR and leaders to design tailored communications for further support and to address key points of concern.

FLEXIBLE WORK ARRANGEMENTS

Introducing and/or expanding flexible working arrangements and tailoring them to accommodate a diverse workforce, thereby fostering an outcome-based culture, will become imperative. Apart from working remotely, consideration should be given to including staggered work schedules, compressed working weeks and overall reduction of working hours. These arrangements could be supported by the expansion of a contingent and gig-worker population to enable more flexibility of workforce management, to address temporary absences due to illness or other unforeseen personal responsibilities, thereby enabling the continuation of work.

BUILD CRITICAL SKILLS AND COMPETENCIES

As remote work increases and organisations solidify plans for digital transformation, developing skills to enable effective digital and remote work, the ability to collaborate and manage digitally will become necessary. Furthermore, the digitisation of work process will create opportunities for employees to develop critical and new skills that will open up multiple avenues for them beyond traditional career pathing. This will also address the fear of being extinct, as well as minimise potential redundancies. Focusing your learning strategies on reskilling and learning new competencies will allow for a dynamic, adaptive and cross-functional capability necessary for building a resilient and agile organisation. This in turn will make possible the deployment of "excess" human capacity to various projects. Moreover, employees' widened skill sets will aid internal talent management functions to market and forward place any potential "excess" skills with other employers.

DIVERSITY AND INCLUSION

Creating and reinforcing a culture of inclusiveness will become ever more important. Human capital functions should support line managers in making inclusion tangible in their new work environment. For line managers with differently abled employees, engagement platforms should be cognisant of how inclusive they are.

Communicating to energise your diverse workforce has always been important, but in the coming decades you will need people fuelled with passion more than ever before. Employees should be inspired to upskill for their personal betterment, while the organisation should continually forecast and invest in the capabilities of value for the sustainability of its operations.

In conclusion, as we embrace the “new normal”, the need for a mentally healthy workforce can never be underestimated. Business leaders and HR practitioners need to embrace the full responsibility for helping employees navigate the significant changes in working conditions and providing holistic well-being offerings, which will go a long way in sustaining business and attracting future talent. As leaders restrategise, they should do so in an empathetic manner and be mindful to lead from the heart, humanising the workplace. Supporting employees in their totality will help to strengthen employees’ emotional, social, financial and physical well-being.

THE PENSIONER'S GUIDE TO THE PANDEMIC

By
Roenica Tyson
Product Manager
Glacier by Sanlam

Brought on Covid-19 pandemic, 2020 has been year of great realisations. This situation inspired reflection around the connectedness of the world, resilience of nature, inequality and economic vulnerability and awareness of what matters most. Pensions in particular have been hard hit, with fear around health, loneliness with lockdown and the financial reality of reduced retirement capital setting in.

LIVING ANNUITY INCOME RELIEF

The Minister of Finance and National Treasury offered tax measures to combat the economic effect of the Covid-19 pandemic, which included relief to living annuity pensioners. This offered annuitants the opportunity to change their income drawdown for a four-month relief period (without having to wait for their annual income review), as well as increase of the maximum living annuity income percentage up to 20% (previously 17.5%) for this period. In addition, a single de-minimis threshold of R125 000 was introduced, providing wider access to small living annuities than the previous withdrawal amounts of R50 000 or R75 000. This will continue to apply after the relief period.

While these measures may bring temporary relief, the long-term impact on the sustainability of retirement capital is yet to be seen.

THE UPSET APPLECART

While the market losses brought on by the pandemic have deteriorated retirement nest eggs, the economic downturn further upset retirement plans. Planned retirement ages have fallen by the wayside with forced early retirement and retrenchments. Opportunities to work beyond retirement to supplement income, have proven challenging in many sectors of the economy. Demands from family situation may have also grown, with previously independent children having to move back home, or not being able to rely on family for financial support.

REGAINING FINANCIAL RESILIENCE

Although uncomfortable, the recent market distress has provided the opportunity for pensioners to re-assess their financial situation. Many recognise seeking professional advice is the first step to increase the longevity of a retirement portfolio. Here's six guidelines pensioners should consider:

MANAGE INVESTMENT PORTFOLIO

Sticking to an investment strategy remains key during uncertain times. Making irrational or emotional decisions such as drastically changing a portfolio during market distress turns temporary losses into permanent ones.

MANAGE LONGEVITY RISK

Financial planning for retirement is not a once-off event, but evolving into ongoing management of a sustainable retirement income stream. Increased use of guaranteed life annuity or hybrid annuities, in conjunction with living annuities offers pensioners opportunity for market growth along with secured income for life.

MANAGE BUDGET

Re-evaluating a budget is a powerful action to understand expenditure - classifying spending according to 'needs' and 'wants'. Curbing non-essential spending allows retirement capital the opportunity to recover market losses and increase its ability to sustain retirement income.

MANAGE LEGACY EXPECTATIONS

Many pensioners still attach high value to leaving a financial legacy. Changing pensioner mindset and gaining support from family to prioritise financial security and independence is vital.

MANAGE TIME AND SKILL

Many pensioners have time, skill and experience to continue with part time work or business ventures into retirement. Securing other forms of income can be critical to income longevity and creates the opportunity to remain physically and mentally active.

MANAGE URGENCY TO SPEAK TO A PROFESSIONAL

The importance of seeking help from a professional cannot be stressed enough. Do not delay getting guidance to navigate these difficult times - these decisions can have a significant impact on pensioners' livelihood.

REALITY CHECK

While 2020 will not be remember for the most prosperous year, the value of forced reflection and fast-tracking realisations should be recognised. Thinking differently about managing retirement income and spending, remaining economically active and letting go of legacy has drastically shifted advise conversations from a decade ago. This shift has also been noted in product providers with a greater focus on solutions to balance longevity and markets risks, providing sustainable retirement income for pensioners.

ESCAPING THE DEBT TRAP: THE IMPACT AT THE WORKPLACE AND MEASURES TO RECTIFY THIS

By
Ayanda Ndimande
Retail Credit
Sanlam

Employees who are stressed about money lose about a month of productivity per year on average. It therefore stands to reason that employers should be looking to help employees manage their debt to minimise the impact on productivity.

However, to do that, companies need to provide tools and information that enable their employees to visibly view their individual debt positions which, in simple ways, helps them to understand their credit profi le and enables them to create a practical plan a practical plan to address it, says Ayanda Ndimande, Business Development Manager: Retail Credit at Sanlam.

The statistics are cause for concern: South Africa has 25,14 million active credit users. Of those, 10,80 million have impaired credit records, which means they are not keeping up with their repayments. That's a staggering 28,4% of the country's adult population.

Moreover, Ndimande says 23,75% of active credit users in South Africa are more than three months in arrears. Only 57% are in good standing.

As a result of the impact of COVID-19, this number is likely to grow as rising household debt is set to have a real impact on our economy. "Consumers are coping by cutting back on necessities, i.e. fuel, electricity, food, long-term insurance and pension fund contributions, and are forfeiting wealth creation and insurance, resulting in increasing personal risk to protect their cash-flow."

WHY THE SA DEBT PROBLEM WILL NOT GO AWAY

At R1,93 trillion, South Africa's total amount of outstanding consumer debt is equivalent to almost two thirds of South Africa's annual GDP and the ratio of total household debt to annual disposable income in South Africa stands at a whopping 72,7%.

The highest levels of first-time defaults on personal loans, credit cards and retail accounts are by young South Africans living in densely populated urban areas, who are working just to get by, and 75% of unsecured loans are being used to fund consumption rather than for productive purposes.

SAVINGS ON THE BACK BURNER

In the absence of a meaningful increase in real income growth, it is clear that consumers are supplementing their income with more debt on a large scale. Those with unsecured loans pay on average 33% of their net income to service their loans – impacting on their ability to save. And a quarter of South Africans say they have dipped into their savings to make ends meet, with a further 18% indicating they've had to borrow from their savings club or stokvel.

All in all, consumers are getting over-indebted faster than ever before.

TOP EARNERS TURN TO BORROWING TO SUPPLEMENT INCOME

The latest DebtBusters* quarterly debt index shows that even before the lockdown South Africans were facing increased financial strain, taking on more debt to supplement incomes that had declined in real terms.

The report further found that consumers who signed up for debt counselling had nominal incomes that were 1% higher than in 2016, but because of cumulative inflation growth of 19%, real incomes declined by 18% - a massive blow to the average South African consumer.

There has been a substantial increase in average borrowing to supplement the decline in net income, with total debt up 33% on average compared to the same period in 2016. Total debt for top earners increased by 63% compared to Q1 2016 levels.

* **DebtBusters** is SA's largest debt counsellor. The quarterly analysis tracks client trends quarter on quarter and over the past four years.

THE IMPACT OF DEBT IN THE WORKPLACE

The opportunity for employers is beyond question: Employees who are stressed about money lose about a month of productivity per year on average and evidence shows cash-strapped workers are 5,8x more likely to miss deadlines, and 4,9x more likely to produce lower-quality work.

Moreover, 40% of people who report feeling financially stressed say it affects their sleep patterns and 28% acknowledge that it impacts their overall health.

It stands to reason that employers should be looking to help employees manage their debt to minimise the impact on productivity and there is increasing pressure on employers to expand their staff value proposition to not only include general well-being, such as on-site gyms and medical support, but also financial health.

With the national debt figure as high as indicated, there has never been a better time for responsible employers to provide their staff with tools and support to understand credit, its responsible uses and its dangers. Having credit management coaches on standby is a boon and may help many over-indebted employees to get a handle on their debt situation.

Financial consumer education should, in fact, be at the core of every employer's staff value proposition. After all, being an "employer of choice" should not only translate to competitive salary packages and fringe benefits, but should also include the responsibility to educate and support employees to achieve financial wellness, as it impacts across all facets of their lives.

Sanlam supports staff and clients by helping them understand their credit profile. The Sanlam credit dashboard provides an understandable and easy-to-use summary of one's credit position. It also comes with free access to a personal credit management coach who will assist individuals to take the necessary steps to improve their credit score in an attempt to grow wealth.

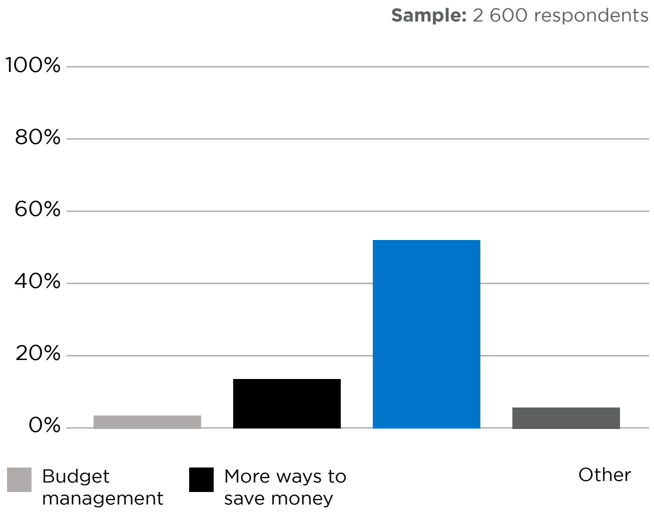
SIDEBARS:

WHY IS COACHING IMPORTANT?

Recent research by Kudough shows that over a nine-month period, nearly 75% of clients who sought the help of a coach shifted from poor risk, while only 28% of those who did not undergo the intervention managed to shift from poor risk.

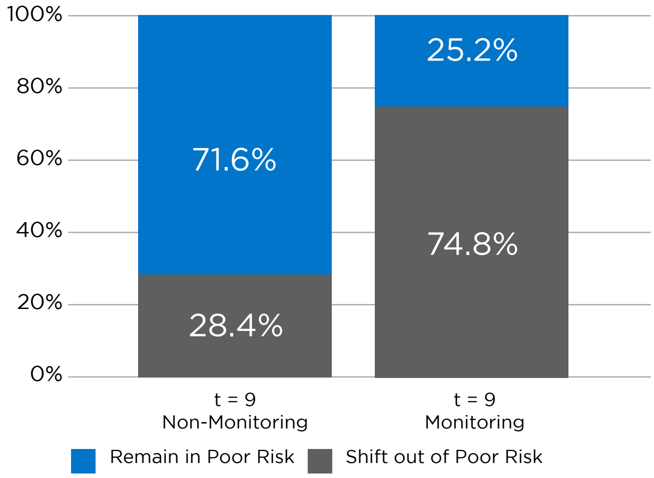
DOES COACHING CHANGE FINANCIAL AND CREDIT BEHAVIOUR?

What do customers need help with?



Does it help?

Poor risk shift
(Non-monitoring vs Monitoring at 9 months)



Source: Kudough Research | Non-Monitoring vs Monitoring

Note: This tool and access to personal credit management coaches are available to any employer who would like to introduce it in their workplace.

FREE VIRTUAL MEDICAL CONSULTATIONS FOR ALL SOUTH AFRICANS

By
Lee Callakoppen
Principal Officer
Bonitas Medical Fund

Bonitas Medical Fund announced that it has extended its free virtual medical consultations to all South Africans. This facility includes medical advice about COVID-19, other medical problems, the writing of prescriptions, where necessary, and free delivery of chronic medication.

Telemedicine was originally developed to reach remote patients living in rural areas. It has now become a critical tool as the world reels under the COVID-19 outbreak. Half the world is staying at home and virtual medical consultations are emerging as an effective and sustainable solution for precaution, prevention and treatment to stem the spread of COVID-19.

Medical practitioners, nationally, have echoed the President's instructions and made an urgent plea for South Africans to stay at home – not only to prevent the spread of the virus, but also to protect the healthcare workers who play a vital role in treating patients.

Bonitas has heeded this plea, making it possible for more people to do just that. The development of the Virtual Care App was announced at the Fund's launch last year and was scheduled to be launched this month. It has since been adapted and expanded to help alleviate the burden on healthcare workers at this critical time, while making quality healthcare accessible to all South Africans.
Lee Callakoppen, principal officer of Bonita Medical Fund, announces that virtual care is available to both members and non-members for free online consultations and, where necessary, prescriptions for medicine. He says: "I'm proud to announce that this new dimension of virtual care, using the Bonitas Member App, will be available to all South Africans from today."

HOW IT WORKS

Whether you are a Bonitas member or not, you simply register on the Bonitas Mobile App and book an online consultation with a doctor from the extensive network of family practitioners. The doctor will then engage with you in a virtual video consultation on any medical issue, not just the COVID-19 virus, and advise you on the most clinically appropriate steps for further care. "To ensure the solution is as comprehensive as possible," Callakoppen says, "we've partnered with Afrocentric Health and Pharmacy Direct so that any chronic medication needed will be delivered to your doorstep."

"It is important to note," he says, "that doctors will advise and treat you within the guidelines set out by the Health Professions Council of South Africa (HSPCA). If this is not possible and you need a physical examination and care, they will refer you to the nearest healthcare facility."

HOME DELIVERY OF MEDICATION CRUCIAL

Gawie Erasmus, CEO of Pharmacy Direct, says: "The delivery of chronic medicines to patients will play a crucial rule in this innovative solution. We are a nationwide courier pharmacy that delivers prescribed chronic medication to a variety of patients.

"Getting medication to patients has always been critical but even more so with COVID-19 and the need for social distancing. To date, we have a 99,9% service level score to the patients in our care. We will ensure this continues by extending our working hours and adhering to stringent hygiene measures, including contactless delivery and drivers hand sanitising before and after each delivery."

VIRTUAL CONSULTATIONS DURING THE PANDEMIC

Dr Rani Elenjical, part of the virtual consulting team, says: "Internationally, we have seen that virtual consultations have helped alleviate some of the strain on the healthcare system caused by the COVID-19 pandemic.

"Telemedicine offers a real-time consultation with patients. Through a video-conferencing platform doctors can provide medical advice and, to a limited extent, diagnose patients. They are able to prescribe medication and advise about different treatment modalities for their patients. It also helps to streamline care coordination by ensuring patients have access to primary healthcare first. This saves time using online triage (the degree of urgency) to evaluate symptoms and concerns.

"In the current pandemic, it is helping to bridge the gap between doctors and patients, enabling everyone, especially symptomatic patients, to stay at home and communicate through virtual channels," explains Dr Elenjical.

IT'S NOT JUST FOR COVID-19

People who are suffering from other medical ailments during this time can receive care at home, without entering medical facilities, minimising their risk of contracting the virus.

Callakoppen says: "What differentiates this service from others is that it is available for consultations on all illnesses and ailments for which you would normally see your GP – all from the comfort of your home. This will help to ensure you comply with the requirements of the lockdown while staying safe and protecting others. The consultation is free during the COVID-19 lockdown period, but all acute medicine is for your account. Pharmacy Direct will assist you in making sure you get the best value for money on your chronic medication. Delivery of chronic medication is also free of charge.

"We are here to support all South Africans to limit their exposure to the virus, while still receiving quality healthcare. Together, we can make it through the worst of this," Callakoppen says.

For more information on how to download the Bonitas Member App, visit www.bonitas.co.za. The app is available to download on the Google Play Store and the iStore. Bonitas members will need to log in to access the features available, while non-members can register for a virtual consultation.

You can also stay updated on all coronavirus-related topics by visiting the COVID-19 information hub at www.bonitas.co.za/home/covid. The hub is updated regularly to keep you abreast of the situation.

This article first appeared on **Bizcommunity** on 9 April 2020.

OPINION: IS COVID-19 A GOOD TEST FOR PRIVATE PUBLIC PARTNERSHIPS AND THE FUTURE OF NHI?

By
Ahmed Banderker
Group CEO
AfroCentric Group

There is a saying that one should never let a crisis go to waste. At the end of the pandemic, we need to look at the learnings of all countries and apply them in the context of NHI, writes Ahmed Banderker, Group CEO of Afrocentric Group, South Africa's largest health administration and medical risk management solutions provider, which owns health companies such as Medscheme.

Is the coronavirus (COVID-19) a test run for the implementation of the National Health Insurance (NHI)? Yes.

As the coronavirus continues to spread across the world in a unique and unprecedented manner, it is also a case study that demonstrates the need to create access to quality healthcare for the most vulnerable in our society.

We must provide integrated, sustainable and innovative solutions across the entire cycle of healthcare. The coronavirus (COVID-19) is confirmation that for the NHI to succeed it cannot be implemented by the government alone, but through the participation of both the private and public sector for the benefit of all of us who are currently enduring the lockdown.

Data from Statistics South Africa shows that more than 47 million South Africans do not have medical aid, and just 9,4 million people enjoy the benefit.

PRIVATE PUBLIC PARTNERSHIPS

To meet the needs of the uncovered 47 million people, we need a workable accommodation between the public and private sectors, through private public partnerships (PPPs).
As we brace ourselves for the full implementation of NHI after we have defeated the coronavirus, we need a reminder of what ails our healthcare system.

WHAT AILS OUR HEALTHCARE?

According to the World Health Organisation (WHO), of the numerous maladies, three stand out. Firstly, public healthcare is insufficient, in most cases due to resource starvation and inefficient infrastructure and poor governance.

Secondly, our private healthcare has become predominantly a private profit business, heavily curative oriented and prone to excessive pricing as a consequence of the legislative framework.

Thirdly, courtesy of WHO research, is the 'people aspect' of healthcare. The WHO says, "How people live and take care of their health has been allowed to degenerate; the protective armour of disease prevention has weakened.

"Nutrition is poor. Rural and urban sanitation is dismal. Consumption of tobacco, alcohol, fast foods and lack of exercise have become major risk factors causing a mega-epidemic of diseases such as diabetes, cardiac problems and cancers."

From the reasons cited above, it is easy to see that only well-designed and implemented partnerships in the areas of infrastructure funding, service provision and overall health system strengthening will help implement an NHI that will be ready to tackle future pandemics.

WILL THE NHI COPE WITH A FUTURE PANDEMIC?

At the end of this pandemic, we should ask ourselves: Will the NHI cope with a future pandemic? Will there be enough ventilators? Will there be enough funds? Will the public hospitals have enough beds? For example, at the moment, medical schemes have reserves of R125 billion that can be utilised by those in private medical schemes.

When we look at the economic strain a pandemic creates, if the NHI was in place, then the bulk of the funding would have to come from government coffers or out of individuals' pockets at a time when they can least afford it.

SO HOW WILL PPPS TAKE OUR HEALTH SERVICES OUT OF THE DOLDRUMS?

A key driver for PPPs is for the private and public sectors to work together to finance health care infrastructure.

Indeed, private public partnerships could be the most promising model for financing a successful healthcare infrastructure.

We can leverage the comparative advantages of both the private and public sectors and build hospitals to serve millions of poverty-stricken citizens.

We can learn from governments around the world, especially countries which have increasingly used private sector involvement in developing, financing and providing public health infrastructure and service delivery through PPPs.

These partnerships would enable communities to combine the resources and medical expertise of the public sector with the operational and environmental specialties of the private sector to create sustainable infrastructure.

The partnership between the private and public sectors is essential if we are to achieve any meaningful success, and PPPs can make a substantial contribution to the delivery of healthcare projects.
I would like make the point that government should start with finding solutions for the indigent, then the uninsured but working. Leave the private sector to self-fund its own needs from after-tax money. This phased approach is the most pragmatic.

PPPs are certainly a promising model that, in conjunction with other economic and social policies, could lead to new ways of commissioning care and promoting innovative healthcare service delivery. To build a healthy nation and citizens, we need PPPs and collaboration with the government to find solutions to social challenges envisaged by the National Development Plan.

Through the PPPs, our country has the potential to increase access to critically needed services and goods that otherwise would not be available.

Make no mistake, dealing with the coronavirus pandemic is the biggest single challenge the NHI would have faced had the healthcare-for-all dream been realised by now.

Now and in the future, South African manufacturing firms - even those not normally involved in producing medical equipment, will need to start making thousands of extra ventilators that could be needed if intensive care units were to become completely over-run with desperately sick patients.
Of course, the government would ask suppliers to quadruple production.

But even if the manufacturing fraternity does somehow manage to produce life-saving ventilators at a faster rate, hospitals would need staff to operate them.

During this crisis, the health sector had to relook and acquaint itself with other modes of consultations, such as virtual consultations and telemedicine.

After all, in these difficult times patients can choose from voice, video or online chats to talk to a general practioner or specialist and discuss their health issues conveniently.

These new service channels of virtual consultations and telemedicine play a vital role in creating more equitable access to healthcare across South Africa while lowering costs.

But let us remember that intensive care medicine is one of the most specialised fields of healthcare, requiring specialised training and expertise that include monitoring high-tech equipment and the precise control of drug dosages.

All of the above issues mean the government cannot fight and defeat COVID-19 alone, and it also cannot implement NHI alone.

The state will need the participation of the private and public sectors, but more importantly, of the people who are observing social distancing at the moment.

Should COVID-19 infections spike to unprecedented levels, the National Department of Health will be looking at private hospitals to provide the extra beds that may be required if there is a shortfall of public beds.

It is great to see the collaboration. But it also makes one wonder whether the total cost of NHI could be a lot less if the two systems collaborated to provide sufficient beds in a particular region.

Imagine what would have happened if we never had medical schemes today? How would the government have handled the cost of providing care for all those who are sick? What if 500 000 South Africans require hospitalisation at the expense of the state? Can we afford this?

There is a saying that one should never let a crisis go to waste. At the end of the pandemic, we need to look at the learnings of all countries and apply them in the context of NHI.

COVID-19 is a good test for PPPs, for the development, testing and implementation of mutually beneficial and innovative healthcare delivery models and solutions for our Rainbow Nation.

Through PPPs, we can get an NHI that is pro-growth, pro-business, pro-job creation and be ready for the next pandemic.

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FINANCIAL LITERACY TRAINING

By
Adv. Yanush Singh
National Business Development Manager
Sanlam

Providing financial literacy training to consumers is one of the mechanisms employed by Sanlam in furtherance of its aim to help people to become financially resilient and live their best possible lives.

WHAT IS FINANCIAL LITERACY TRAINING?

Financial literacy training, also commonly referred to as consumer financial education, is educational content that is delivered to groups of consumers (who are typically employees or members of organisations) with the primary aim of equipping them with the knowledge and tools to make more informed personal, financial planning choices.

Financial literacy training is designed, among other things, to assist attendees to:

- Create spending plans so that they can make the most of what they earn;
- Structure their estates in order to optimise the value thereof by, for instance, minimising estate costs and taxes;
- Draw up valid wills, including testamentary trusts that will safeguard their assets for their minor children; and
- Implement the right short-term insurance and medical scheme solutions.

WHY DOES THE NEED EXIST?

South African consumers are grossly underinsured. South Africa's life and disability insurance gap, which is measured by ASISA, is currently about R1,5 million for life cover and R1,4m for disability cover for the average earner under 40 years of age.

South Africans also do not adequately save for their retirement and according to National Treasury only 6% of South Africans can afford to retire comfortably.

A lack of consumer financial education is one reason for these shortfalls and in order to implement decisive and often corrective measures to get one's financial planning on track, first and foremost, one needs to appreciate the importance of sound financial advice and planning and develop an awareness of the solutions available, which should also be made accessible.

WHAT IS THE IMPACT OF THE TRAINING?

Regardless of industry, clients who are able to make more informed purchasing decisions tend to be more loyal and satisfied.

Aside from the obvious benefit of increased financial security for employees and their loved ones, financial education reduces stress and improves overall employee wellness. This, in turn, benefits organisations, which experience improved staff morale and increased productivity as well as decreased levels of absenteeism.

HOW DOES SANLAM CONDUCT THE TRAINING?

Sanlam avoids a cookie-cutter approach to financial literacy and works together with organisations to develop bespoke financial literacy programmes, tailored to their specific needs. This may include conducting training needs analyses, segmenting members within organisations and developing content appropriate for each segment.

All training content is presented by experts and is generic, i.e. there is no reference to specific Sanlam products.

Sanlam boasts a national footprint, including in excess of 20 specialists tasked with overseeing the roll-out of financial literacy training to all members of organisations, regardless of geographical location.

Pursuant to training, members are provided with access to expert financial planners who are able to conduct comprehensive financial needs analyses and to provide sound advice and appropriate products. Only attendees who request individual consultations are contacted by intermediaries.

The impact of roll-outs on members and organisations (including progress towards goals) is regularly assessed and programmes are modified, where necessary, in accordance with the outcomes of these assessments together with feedback from attendees.

In response to the COVID-19 epidemic, we have developed an offering that is entirely digital, from educating members to implementing product solutions.

CONCLUSION

We are intent on building the financial resilience of your organisation through the financial resilience of its people.

Sanlam is committed to making a positive difference to people's lives and knows that building a sustainable and successful future requires building the long-term financial resilience of all of its people and that enduring financial resilience is best built by working together with both the organisation and its individual employees in an easily accessible and always-available relationship of expert education and advice.

With a solid and stable foundation of financial resilience, job satisfaction and security at the individual level, not only does the workplace become a happier and more productive one, but the organisation becomes better equipped to succeed and flourish into the future.

Should you be interested in finding out more about Sanlam's Financial Wellness Programme, please engage with us.

DISABILITY INSURANCE AND COVID-19: OPTIONS FOR FINANCIALLY DISTRESSED EMPLOYERS

By
Michele Jennings
Managing Executive: Group Risk
Sanlam Corporate

With the continued nationwide lockdown to help reduce the spread of COVID-19 in South Africa, it is understandable that the impact of the lockdown is far-reaching. Many employers are experiencing financial challenges during this time, including the provision of essential group insurance cover for their employees.

Employers and employees in financial distress are exploring mechanisms to improve cash flow and reduce their financial burden, including reconsidering group risk premium payments. Many policyholders have enquired whether risk cover can be reduced or terminated in the short term as a result of their financial constraints, while at the same time recognising that the need for risk cover has seldom been higher than in the midst of the current pandemic, with the likelihood of claiming being much greater than normal.

Apart from the immediate death cover needs, maintaining disability insurance cover in the longer term is critical to ensure the well-being and security of employees and their families should an employee be unable to work as a result of incapacity. In addition to accidents, it's frequently depression, diabetes, heart disease, spinal injuries, back and joint disorders, arthritis and bone fractures that incapacitate people.

Sanlam Corporate: Group Risk empathises with the financial challenges posed by the lockdown and has explored various mechanisms, providing flexibility and support to qualifying clients, to assist them so they can continue to be covered or maintain appropriate levels of cover. These mechanisms include inter alia the following:

INCREASING THE WAITING PERIODS FOR DISABILITY CLAIMS

The waiting period is the time from the date an employee becomes disabled (1 day after the last day actively at work), until the disability income benefit becomes payable, and during which period the employee was uninterruptedly disabled for work.

A longer waiting period of say six months instead of three months has the benefit of reducing the premium, and with proactive engagement with the insurer allows time to deploy a proactive health management and rehabilitation programme whereby the rehabilitation/reskilling of the disabled employee may likely be successful to enable that employee to return to work.

Salary refund insurance is available to refund the employer the full amount of the salary paid to the employee during the waiting period, on condition that the underlying income disability insurance claim is successful.

EXTENDING THE DURATION OF TEMPORARY INCOME DISABILITY INSURANCE

According to FMI's recent #RealityCheck survey, a person is nine times more likely to experience a temporary disability than to have his car stolen or be hijacked. It's a common misconception that disabilities only occur because of workplace accidents; in fact, most disabilities are caused by chronic conditions like back injuries, cancer and heart disease.

Termporary income disability insurance replaces an employee's income for a short (fixed) period of time in the event that he experiences a disability.

The definition of disability allows for the payment of the temporary income disability insurance irrespective of the permanency of the condition. Extending the fixed payment period from 24 months to 36 months can provide adequate cover, while also providing significant time for the employee to recover and return to work.

REDUCING FLAT INCOME DISABILITY REPLACEMENT RATIOS

The same survey concluded that 7 out of 10 people will experience at least one injury or illness during their working lives that will prevent them from being able to earn an income.

In the long term, income disability insurance ensures an employee will still receive a percentage of his income if he cannot work due to sickness or a disabling injury, typically 50-75 per cent of pre-tax income.

While it's ideal to have adequate disability insurance cover in place, it's wise to at least take some level of cover if affordability is a problem as opposed to being completely exposed. By temporarily reducing the percentage from 75% of salary to 60% of salary, the group risk premium for a scheme with high-income earners may be materially reduced.

MOVING FROM FLAT INCOME DISABILITY INSURANCE COVER LEVELS TO A TAX-SCALED BENEFIT

Following the Taxation Laws Amendment Act in March 2015, disability income premiums are taxed in the hands of employees while the benefit to claimants is tax free. Despite the obvious benefit to high-income earners, very few employers amended their disability income benefits following this tax change.

The income disability insurance benefits for employees who are below the tax threshold (and therefore don't pay tax) have not been affected, as their gross and net disability benefits before and after the change in tax legislation are unaffected. However, for those employees who earn larger salaries and have gross income disability benefits above the tax threshold, their net disability benefits before and after the tax change have increased substantially. Research has shown that higher replacement ratios result in more claims and longer average claim durations since there is less incentive for a claimant to return to work. (The impact of these behavioural changes will be highly dependent on an employer group's actual salary distribution.)

To compensate for the tax effect, Sanlam introduced a 75% tax modified scale benefit, where the (gross) disability benefit percentage scales down as the salary increases, so that the net income (i.e. the disabled member's take-home pay) before and after disability is much more closely aligned.
This means the maximum insured income will be equal to:

- 75% of first R10 000 monthly salary, plus
- 60% of the next R30 000 monthly salary, plus
- 50% of the monthly salary in excess of R40 000.

The monthly benefit is subject to a total maximum of R220 000, while the employer waiver benefit is limited to a maximum of R57 000 per month.

For schemes with high-income earners, the tax-scaled benefit may reduce the group risk premium, while placing disabled employees in approximately the same position as before the change in the tax legislation, in terms of the claimant's net disability income (benefit after income tax has been subtracted, as applicable).

Policyholders who are experiencing financial difficulties and who might not be able to afford their premiums should contact us, or their group risk intermediary, to discuss potential solutions.

YES, MEDICAL AID MATTERS

By
Jeremy Yatt
Principal Officer
Fedhealth

If the COVID-19 pandemic has taught us anything, it is that our health is still the most precious gift of all. A gift that should be protected at all costs.

The COVID-19 outbreak and the subsequent national lockdown have left many members and employer groups in distress. According to the Quarterly Labour Force Survey for the 1st quarter of 2020, employment in South Africa has decreased by 38 000 to 16,4 million. Many South Africans have lost their incomes and businesses have had to retrench employees.

The reality is that individuals were already in financial distress prior to the COVID-19 pandemic, and its impact is having far-reaching financial consequences. As part of the Sanlam Benchmark Survey, members were asked what benefits should be on offer by their employer and why. An overwhelming majority indicated that retirement benefits and medical aid provision were critical for the financial well-being of their families.

Individuals indicated that flexibility and choice were the key attributes medical schemes should have. These relate to a medical scheme's ability to respond to the changing needs of members and the environment in which it operates. Cost is the final determinant taken into consideration when having to select the range of benefits that fits in with the principal member's or family's healthcare needs. For many, medical scheme membership has now become a luxury they can no longer afford.

There has been a massive learning curve for the healthcare industry across the world.

CONSIDER THIS:

The COVID-19 treatment of a patient could cost up to R173 000, especially if ICU treatment is required. Most of us would be left at a serious financial disadvantage if we had to pay this from our own pockets. Medical schemes are required by law to have reserves of at least 25% to ensure they can pay claims – precisely for unexpected events such as the COVID-19 outbreak.
Medical schemes are not unsympathetic to their members' plight.

CHOOSE CHOICE, FLEXIBILITY AND CONTROL FROM YOUR MEDICAL SCHEME

Fedhealth actuaries have projected that the pandemic could cost the scheme upwards of R50 million in claims and loss of membership. Fedhealth is in good financial health, with reserves currently at 32%, providing employers and members with the peace of mind that claims will be paid.

Apart from covering COVID-19 diagnosis and treatment as set out in guidelines from the Council for Medical Schemes, at Fedhealth we also offer the following:

- **Financial relief measures –** Members (and employer groups) have the opportunity to "downgrade" their Fedhealth option to a lower-priced sub-option, temporarily suspend their membership, or use accumulated savings to pay their contributions.

- **Fedhealth Crisis Support Desk –** A 24-hour call centre was set up for members to contact with all their COVID-19-related enquiries and concerns, medical questions or emotional support.

- **Ongoing member communications** with the latest information and helpful tips on topics ranging from wearing a mask to taking care of a loved one with COVID-19, and how to preserve one's mental health during lockdown.

- **A comprehensive COVID-19 hub** with extensive information was added on the Fedhealth website, and a dedicated COVID-19 Chatbot was developed to answer members' FAQs.

- **Fedhealth's innovative flexiFED** range is structured in such a way as to give members more control over how much they pay for their medical scheme in uncertain economic times. Members simply don't pay for day-to-day benefits they don't use, and can choose an 11% or 25% discount on their monthly contributions.

Now, more than ever before, it pays for employers to add healthcare provision by a reputable medical scheme to their employee benefits value proposition. Fedhealth takes great pride in how it has responded, and continues to respond, to members' needs during the COVID-19 pandemic.

EMPOWERING INSIGHTS

By
Rigitte van Zyl
Chief Client Officer
Sanlam Corporate

And
Viresh Maharaj
Managing Executive
Sanlam Corporate Distribution

A key theme that emerged across the 2020 Sanlam Benchmark research was that the focus of institutional retirement funding will shift towards engaging members themselves, consistent with the Megatrend of Individualisation that emerged from the 2019 Sanlam Benchmark research. When asked to identify the key trends that consultants anticipate over the next five years, the results were quite clear. Technological Innovation across various dimensions, Member Focus and moves towards providing Integrated Product Suites and Flexibility of benefits speak to the unlocking of value for members by enabling greater individualisation. It is interesting to note that investment-related issues were the lowest-ranked items in this section, which have changed given the significant market volatility that followed post this research.

Consultants identified their current top three advice themes, with costs remaining a key advice point, but the member focus emerged once again as the Provision of Financial Advice to Members was ranked second, with Member Education ranked fifth.

When asked on the changing nature of advice, the top-ranked items all pointed in a singular direction – engaging members. This speaks to the opportunity to individualise the member's experience of retirement funding, enabling better decisions informed by data and engagement. This represents a shift in the traditional employee benefits consulting framework where the board of trustees was very much the recipient of the consulting capability to a paradigm where consultants are empowered by boards to deepen their consulting reach to members themselves. The move towards umbrella funds is likely to have influenced this shift as employers expect consultants and service providers to be granularly involved with their employees given the reduced complexity of managing their participation in an umbrella fund relative to a stand-alone fund structure. Implementation of the 'default regulations' in 2019 would have played a key role in informing this shift as the nature of paid-up members, retirement benefits counselling and trustee-endorsed annuity strategies all lend themselves to a greater focus on individuals.

These were views shared before the impact of COVID-19 and the lockdown, which has immeasurably changed social, economic and financial dynamics across the globe and with South Africa feeling the impact acutely.

The emotional impact on people cannot be underestimated as all of us have had to struggle with various pressures over the past three months, as well as with the great uncertainty that characterises the future. As a nation, we are afraid of the impact of the disease on our loved ones, ourselves and, as the lockdown continues, on our livelihoods and the economy at large. While the extent of these fears may have waxed and waned over the past three months, the continued pressure on people remains. This pressure is felt most broadly in the dimension of personal finances, which have been hit hard by the limitations of the lockdown. According to Stats SA, 10% of South Africans reported earning no income during the lockdown, 26% reported a reduction in income and 19% were unlikely to meet their financial obligations. Of those who experienced a reduction, 52% accessed savings, including stokvels, and 41% incurred additional debt to make ends meet. The fear is pervasive, with 12% reporting to be concerned about the short-term impact of the lockdown on their financial situation and 67% concerned with the long-term impact. The news is dire and the key driver right now for individuals is survival.

Retirement funds are not insulated from this drive by members to survive.

Over the course of the lockdown, we have found that over 25% of retirement funds have members who queried or complained about their investment performance or fund values; 16% have members who requested access to their retirement funds; 8% have members who requested financial advice and about 5% have members who implemented investment switches, among other activities.

We explored the role retirement funds can play to meet the immediate cash-flow needs of members and the most popular view was that a temporary suspension of retirement fund contributions was the most appropriate measure. We also explored hypothetical measures to understand the attractiveness of these measures. Temporarily increasing the tax threshold on retirements, deaths and retrenchments from R500k to R1m was the most popular of these, followed by allowing for a one-off tax-free withdrawal from one's retirement fund.

When considering these alternatives, it is important to have context as to the potential impact of the respective measures. A look at the membership data in Sanlam's administration book is informative as 50% of members have less than R50k in their funds and about 10% have balances greater than R500k. According to industry data, the average fund balance is 80% of annual pensionable salaries and almost two thirds of members have less than six months of salaries accumulated in their fund values. The net effect is that accessing or borrowing against savings as a short-term measure may not provide enough financial relief across the breadth of affected members and is likely to decimate any likelihood of long-term wealth creation. This must obviously be weighed against the pressing need for short-term survival. Our current retirement funding system is not geared to meet the real need of survival and is hamstrung by low preservation rates, resulting in lower fund values.

Returning to the suspension of contributions, 26% of employers/funds indicated that they had suspended retirement fund contributions and 91% of consultants had at least a client who had already done so. On average, these suspensions provide net cash-flow relief to individuals of R1 500 per month and this would vary depending on contribution levels and tax brackets. This average figure can be compared to the Special COVID-19 Social Relief of Distress of R350 per month to unemployed citizens and therefore represents a meaningful uplift in income to employed recipients.

The long-term impact of the suspension on outcomes is also limited and our rough calculations indicate a 1-3% impact on final fund values based on a six-month suspension and conservative assumptions. In the context of meeting immediate needs, it seems the suspensions are a relevant means to providing immediate relief without scuppering long-term prospects. Employers who had implemented this measure reported that gratitude was the most common response from their employees to this decision. The elephant in the room, though, is whether and how to end the suspensions with an immediate reduction in the cash flow available to employees … this is a point we will refer to again later.

A key aspect of the suspensions was communication to affected employees, with emails followed by SMSs. Both consultants and employers/funds expressed confidence that members were aware of the suspensions, but with notable differences in the extent of their confidence. This may relate to the greater proximity of the employer to the members themselves. Such emergency communication is enabled by maintaining accurate and complete contact details for members, which is an activity that cannot be taken for granted. Sections 7C(2) and 7D(1)(c) and Regulation 33(3)(a) of the PFA, read together with Circulars PF 86 and 90, deal with the duties and responsibilities of trustees with regard to members and communication to them. Funds must ensure this is done timeously, and in a transparent, understandable and easily accessible manner. Put differently, member focus is enabled by maintaining these contact details and there was a spread of responses from participants as to whether such details were available to communicate the suspensions. This is also the key to unlocking the use of technology to engage members at scale.

On the issue of suspensions, we were pleased to find among both consultants and employers that very few had suspended group risk premiums given the amplified importance of appropriate coverage during a pandemic.

Moving on to the dimension of group risk, the industry had undergone significant disruption due to a deterioration in claims experience, resulting in a sustained pricing cycle of significant year-on-year rate increases. This is a dynamic that we explored in detail at last year's Benchmark. Prior to the pandemic, a significant minority of consultants indicated that pricing had not yet stabilised given the link between economic growth and both mortality and morbidity. With the subsequent dual shocks of the healthcare impact of the pandemic and the contraction of the economy, claims and to the pandemic, a significant minority of consultants indicated that pricing had not yet stabilised given the link between economic growth and both mortality and morbidity. With the subsequent dual shocks of the healthcare impact of the pandemic and the contraction of the economy, claims and insurance premiums are most likely going to increase in the near future, adding further pressure to already constrained fund members. We explored the views of survey participants on the extent of the increases expected and responses were mixed, with consultants broadly expecting increases in the near future. This may be due to the more regular interaction between consultants and group insurers across a breadth of clients.

Such increases are likely to be felt most acutely in the arena of disability income protection, which has been one of the product categories most aligned with the economic experience of the country. We explored the mechanisms available to employers should the upward pricing cycle continue and found that more than 50% of employers did not yet see the need to review the structure of such benefits, which may be a function of the lag between the economy, claims and the rate review windows of insurers. We would anticipate that steep increases may well catalyse many employers to reconsider benefit structures, with a change from flat benefit structures to income-tax-scaled structures noted as the most popular option. Alignment with the tax scales helps to control the longevity of claims and would have an impact on controlling the costs of providing these benefits. Encouragingly, almost no respondents indicated that they would terminate such benefits as a result of price increases, demonstrating the critical role such coverage plays in the lives of employees.

Given the likely increase in claims, the stability of insurers and the ability to continue to pay all valid claims are of critical importance. Here we find that the bulk of consultants and a significant minority of employers/funds have assessed the solvency of their insurers. From the pre-COVID research, it was encouraging that claims repudiation ranked very low down on the list of frustrations experienced by consultants. This is the area where promises made must be kept and hence the feedback from consultants is a positive reflection on insurers.

Market volatility over the past 12 years has been wildly erratic. Consider the experience of investors over this period, which includes the Great Financial Crisis, multiple tranches of quantitative easing, the European Debt Crisis, Brexit, Trump, oil price shocks, Nenegate, Steinhoff, multiple downgrades and now COVID-19. Let's consider what the future holds: an alphabet soup of economic recovery patterns, US elections in November, geopolitical conflicts hot and cold, South Africa's frightening debt trajectory, actual Brexit, additional pandemics, the sting in the tail of quantitative easing, and other black swans that haven't yet arrived. The only predictable facet of the future is that it will result in market volatility.

It's because of this inherent, unpredictable and pervasive volatility that we must re-examine the status quo. Sanlam Benchmark research has found that the most popular default strategies across funds are variations on lifestage structures, with accumulation portfolios being moderate aggressive to aggressive in their construction, transitioning into different types of more conservative portfolios as members approach retirement. The traditional thinking here is that younger members have more time available to them and can therefore ride the waves of market volatility and benefit from the equity risk premium in the long term. As their investment horizon diminishes due to exiting the funding system due to retirement, they switch progressively into less volatile portfolios as time is no longer on their side. Added to this dynamic is the element of financial literacy or sophistication often ascribed to white-collar members who are presumed to understand and accept volatility as part of their long-term investment process. At the other end of the spectrum, we have blue-collar workers who are presumed to be less accepting of such volatility and may therefore be invested in conservative portfolios throughout. Now, this is worth a review.

Our thesis is that most (if not all) members irrespective of age, education or income status, dislike downside market volatility and are unwilling to accept losses in their portfolios. Cast your minds back to mid-March when the markets crumbled. A significant amount of effort was expended by the entire industry to bring calm and resolve to clients to prevent them from making inappropriate decisions. Member choice goes hand in hand with perceived investment sophistication, but these very investors were exposed to fear during the crash, resulting in a spike in switching activity at exactly the time it would hurt them the most.

Moving past assumptions relating to the risk appetite of the average member, we need to reconsider another key assumption behind long-term investing and that is whether it actually is for the long term. The median tenure of employment in South Africa according to Stats SA is four years. This fact, combined with historical low rates of preservation when employees change jobs, uncovers a potentially uncomfortable reality that members' investment strategies do not align with their investment horizons in practice. Against the backdrop of consultants and/or employers having to manage member reactions due to asset losses, now is the time to critically re-evaluate the existing structures and to consider whether existing default strategies are still relevant. Sixteen per cent of consultants and 11% of employers/funds have already indicated that they will be doing so.

Given the truncated investment horizon of members, risk aversion displayed in practice and market volatility as a reality for the foreseeable future, portfolios offering investment guarantees or smoothing may rise in popularity in the future. While potentially relevant across the age spectrum, such portfolios are clearly appropriate for members approaching retirement. It is at this stage of life that the typical retirement fund member has his highest accumulated fund value and therefore his greatest potential sum at risk due to market volatility. He would by definition also have the least time available to recover from downward movements. While conservative balanced portfolios are often used in this end-stage, members are still exposed to the risk of market crashes such as what happened a few weeks ago. Under these circumstances, shock results in fear, which results in panic and the dynamic correlation between diverse asset categories narrows as prices begin to move together directionally, resulting in the potential for meaningful losses despite conservative asset allocation. It is therefore at this lifestage where investment guarantees provide the necessary security to pre-retirees by protecting their capital while also providing significant exposure to market growth. From the research, 13% of consultants and 11% of employers/funds responded that they would consider introducing guarantees for pre-retirees. While consultants did not rank 'capital protection' highly as a trend prior to the pandemic, we would anticipate that more will do so in time as the fundamental assumptions underlying existing structures are questioned and the practical experience of pre-retirees comes to the forefront.

Another trend that was not top of mind among most consultants before the pandemic was that of 'impact investing' and we can report that this has changed dramatically. When questioned on the levers available to rebuild South Africa's economy, the most popular option was the use of the large pool of unclaimed benefits in the industry to beneficiate poor communities, which is a promising and potentially responsible use of monies that are unlikely to be reclaimed by the majority of members. This is a mechanism worthy of further exploration. The three next most popular responses all related to applying the capital of retirement funds to impact society and the economy via increasing asset allocations to sustainable infrastructure development, ESG investments and alternatives. Prior to the pandemic, consultants highlighted that the most popular destination for impact investments would be towards enabling decent work and economic growth, with the impact of the lockdown amplifying the onus to focus on these outcomes. It is worth noting that the reintroduction of prescribed assets and taxation on retirement funds were the least popular options selected by participants.

As we move towards the conclusion of our segment, we return to our initial point of departure and that is to focus on members. From a member-centric perspective, COVID-19 and the lockdown have exposed the fault lines in our retirement funding system. Members do not have enough saved, are exposed to risk and make inappropriate decisions without the necessary support. Against this backdrop, members and their needs have evolved over time, with retirement funding quite far down on their list of priorities. The realities of limited cash flow and managing debt often trump long-term wealth creation as a result of the instinctive need to survive. The appeal of retirement funding in the context of an Employer Value Proposition aimed at attracting, retaining and engaging talent is also likely to be questioned as COVID-19 forces many employers to re-evaluate their cost structures, employee preferences and value drivers. Many may opt to transition into umbrella funds to reduce the burden of managing a retirement fund, while others may question the value of offering any form of retirement funding at all.

As an industry, we have a limited window of opportunity to reconnect with, engage and become more relevant to members. The risk we face is that an outdated status quo persists ... we cannot waste this crisis and we call on all decision makers to apply ourselves, to move out of our comfort zones and to actively review our choices, structures and assumptions.

Now is the time to act.

RESEARCH METHODOLOGY

By
Wagieda Pather
Market Insights
Sanlam Corporate

Our approach to the Sanlam Benchmark research differed from previous years in that we did not conduct the annual tracking surveys with stand-alone retirement funds and participating employers in umbrella funds.

As we found ourselves in uncharted territory we had to be agile in our response to the unique information needs of not only our clients but also the broader retirement fund industry. For the purposes of this report we also relied on a number of secondary research sources. Each has been appropriately credited throughout this report.

SANLAM BENCHMARK SURVEY

The data tables and graphs in this section of the report are based purely on the online survey conducted by Sanlam.

Placing employees at the centre of our research it became clear that the impact of COVID-19 and the lockdown on income and healthcare was going to be detrimental to the provision of employee benefits (EB), i.e. retirement funding, risk benefits and healthcare by employers.

We focused the survey on challenges employers and funds faced in the lockdown and tested for possible solutions as a response to the effect of COVID-19 on the industry.

SAMPLE COMPOSITION AND DATA COLLECTION

For the purposes of this survey, the sampling frame was defined as all stand-alone employer-sponsored retirement funds and participating employers in commercial umbrella funds, as well as specialist employee benefits consultants. The online survey was completed by principal officers and trustees of stand-alone retirement funds, key liaison persons at participating employers and EB consultants.

DATA COLLECTION AND RESPONSE RATES

We partnered with a few retirement fund industry bodies to distribute the survey link on their websites in addition to polling a section of internal clients.

We are satisfied that the sample size for this study meets statistical analysis requirements.

Respondent category	Number of responses
Employee Benefits Consultants	142
Employers and Retirement Funds	232

DATA TABLES AND GRAPHS

The tables and graphs in this report are based on the number of responses indicated above. In some instances the sample responses are ≠ 100%.

Where:

- the number of responses is less than 100%, the question was not applicable to all respondents
- the number of responses is greater than 100%, the question allowed for multiple responses.
- Some questions included pre-set conditions in the design of the survey. These responses are clearly indicated in the tables and graphs.

SECTION 02.

CONSULTANTS SURVEY

Q.01.

Please indicate whether you have made use of any of the mechanisms below to engage clients during the lockdown: (multiple selections are permitted)

RESPONSE	%	COUNT
Microsoft Teams	27%	98
Skype	9%	33
Zoom	33%	117
Webex	31%	9
None of the above	2%	6
WhatsApp	25%	89
Linked In	2%	7
Total	**100%**	**359**

Q.02.

Have any of your clients applied for a temporary suspension of retirement fund contributions due to the economic impact of the lockdown?

RESPONSE	%	COUNT
Yes	91%	135
No	9%	14
Total	**100%**	**149**

N.B. Questions 03 through 08 were only asked of those who responded "**Yes**" to Question 02.

Q.03.

For how many months do you expect the suspension of retirement fund contributions to last for your clients on average?

RESPONSE	%	COUNT
1	1%	1
2	3%	4
3	44%	57
4	20%	26
5	4%	5
6 or more	28%	36
Total	**100%**	**129**
Mean	**4 Months**	

Q.04.

Have any of your clients also suspended the payment of group insurance premiums?

RESPONSE	%	COUNT
Yes	5%	7
No	91%	117
Unsure	3%	4
Total	**100%**	**128**

Q.05.

How was communication to members on the suspension of retirement fund contributions and/or group insurance premiums implemented? (multiple selections are permitted)

RESPONSE	%	COUNT
SMS	13%	33
Email	45%	110
Telephone	9%	22
Intranet	6%	16
WhatsApp	9%	23
Social Media	2%	4
Other	8%	20
Unsure	4%	10
Webinar	4%	9
Total	**100%**	**247**

Q.06.

To what extent do you believe that members are aware of these suspensions?

RESPONSE	%	COUNT
Fully	52%	66
Moderate	48%	61
Not at All	1%	1
Total	**100%**	**128**

Q.07.

Do you have access to member contact details to be able to communicate effectively across your clients?

RESPONSE	%	COUNT
Yes- I have access to most member contact details across all of my clients	29%	37
Partially No- I have very limited access to member contact details across my clients	25%	32
Partially Yes- I have access to most member contact details across some of my clients	38%	48
No- I do not have access to member contact details	9%	11
Total	**100%**	**128**

Q.08.

Please indicate whether the reactions of members entailed any of the following:(multiple selections are permitted)

RESPONSE	%	COUNT
Concern regarding their retirement funding outcomes	29%	61
Concern regarding whether they would be covered for Covid-19 related insurance claims	26%	54
Concern regarding the loss of insurance coverage	15%	31
Gratitude towards the employer	15%	31
No reactions noted	15%	31
Total	**100%**	**208**

N.B.

Questions 09 through 11 were only asked of those who responded “**No**” to Question 02.

Q.09.

Do you anticipate clients requesting a suspension of retirement funding contributions at some point over the next 6 months?

RESPONSE	%	COUNT
Yes	29%	4
No	43%	6
Unsure	29%	4
Total	**100%**	**14**

Q.10.

Have you received any requests from members to temporarily suspend retirement funding contributions?

RESPONSE	%	COUNT
Yes	14%	2
No	86%	12
Total	**100%**	**14**

Q.11.

Do you have access to member contact details to be able to communicate effectively across your clients?

RESPONSE	%	COUNT
Yes - I have access to most member contact details across all of my clients	50%	7
Partially No - I have very limited access to member contact details across my clients	7%	1
Partially Yes - I have access to most member contact details across some of my clients	36%	5
No - I do not have access to member contact details	7%	1
Total	**100%**	**14**

Q.12.

Which of the following potential mechanisms do you believe best support the financial needs of employees / members given the economic impact of the lockdown?

RESPONSE	%	COUNT
Temporary suspension of retirement fund contributions	34%	113
A once-off tax exempt withdrawal from their retirement funds for active members but with limitations	9%	31
Enabling borrowing against members' fund credits not only for housing loans	6%	19
Enabling payment of group risk premiums from members' fund credits	11%	38
Enabling payment of medical aid premiums from members' fund credits	9%	29
Increasing the tax free amount in respect of members who retire, die or are retrenched to R1m (currently R500k) for the next 12 months	16%	53
Reducing the earliest retirement age for members being retrenched across all Retirement Funds to 50 so that they enjoy more favourable taxation of the lump sum benefit	9%	30
Implementing guaranteed investment portfolios in your default investment strategy especially for pre-retirees	7%	24
Total	**100%**	**337**

Q.13.

Given the economic destruction arising from Covid-19, which of the following measures do you believe should be considered to help to rebuild SA's economy?

RESPONSE	%	COUNT
Implementation of prescribed assets on Retirement Funds' investment strategies	4%	10
A once-off tax on Retirement Funds to raise government revenue	4%	10
The reintroduction of taxation on the income earned by Retirement Funds	1%	4
Reducing tax incentives on Retirement Fund contributions	3%	8
Retirement Funds to invest in reputable local unlisted companies experiencing financial distress due to the lockdown	9%	25
Retirement Funds to increase asset allocation to SA Government Bonds	5%	14
Retirement Funds to increase asset allocation to sustainable infrastructure development in South Africa	20%	56
Retirement Funds to increase focus paid to Environmental, Societal & Governance (ESG) factors when investing	15%	43
Use of a material portion of existing Unclaimed Benefits Funds to benefit poorer communities	20%	56
Retirement Funds to increase asset allocation to alternative investments such as Private Equity, Infrastructure and Unlisted Debt	10%	27
None of the above	9%	25
Total	**100%**	**278**

Q.14.

Have you evaluated the solvency of your group insurance service providers to ensure that they are able to manage the potential shock of the pandemic?

RESPONSE	%	COUNT
Yes	62%	83
No	38%	51
Total	**100%**	**134**

Q.15.

To what extent do you believe that group insurance premiums will increase due to the impact of Covid-19?

RESPONSE	%	COUNT
Less than 10%	54%	72
10-20%	14%	26
More than 20%	4%	5
No increases anticipated	23%	31
Total	**100%**	**134**

Q.16.

Should group insurance premiums increase as a result of the impact of COVDI-19, how would you advise your clients?

RESPONSE	%	COUNT
Rebroke insurance benefits to find cheaper premiums	42%	100
Reduce the level of benefits provided	3%	6
Reduce the types of benefits provided	1%	2
Restructure benefits to be more affordable	25%	59
Accept the increases if they are justifiable	28%	66
None of the Above	1%	3
Total	**100%**	**236**

Q.17.

Would you consider reviewing your clients' disability income benefits structure (if applicable) to help control costs into the future by applying one or more of the following changes:

RESPONSE	%	COUNT
Change from flat benefit structures to income tax rate scaled benefit structures	35%	61
Increase the waiting period	13%	22
Reduce benefit levels	15%	26
Terminate the disability income benefits policy	1%	1
No need to review the disability income benefits policies	37%	65
Total	**100%**	**175**

Q.18.

Over the course of the lockdown, did your clients experience an increase in:

RESPONSE	%	COUNT
Member investment switches	6%	18
Members' queries and/or complaints on their investment performance and/or fund values	26%	78
Requests from members to access portions of their retirement funds	20%	59
The utilisation of retirement benefits counselling	6%	17
Requests for financial advice from members	16%	49
Digital engagement from members	9%	27
Members' queries regarding their group risk benefits	12%	35
None of the above	6%	18
Total	**100%**	**301**

Q.19.

Over the course of the lockdown, how would you rate communication to you from service providers?

RESPONSE	%	COUNT
Effective	82%	110
Neutral	16%	21
Ineffective	2%	3
Total	**100%**	**134**

Q.20.

Over the course of the lockdown, how would you rate communication to members from service providers?

RESPONSE	%	COUNT
Effective	40%	53
Neutral	56%	74
Ineffective	5%	6
Total	**100%**	**133**

Q.21.

Over the course of the lockdown, how would you rate the operational resilience of your service providers?

RESPONSE	%	COUNT
Effective	73%	97
Neutral	26%	34
Ineffective	2%	2
Total	**100%**	**133**

Q.22.

Over the course of the lockdown, how would you rate the appropriateness of your clients' investment strategies on average?

RESPONSE	%	COUNT
Effective	64%	85
Neutral	35%	47
Ineffective	1%	1
Total	**100%**	**133**

Q.23.

Over the course of the lockdown, how Retirement benefits counselling provided to members?

RESPONSE	%	COUNT
Effective	41%	55
Neutral	52%	69
Ineffective	7%	9
Total	**100%**	**133**

Q.24.

Over the course of the lockdown, how would you rate the digital capability of your service providers?

RESPONSE	%	COUNT
Effective	66%	88
Neutral	29%	38
Ineffective	5%	7
Total	**100%**	**133**

Q.25.

Over the course of the lockdown, how would you rate the support provided to you by service providers during the lockdown?

RESPONSE	%	COUNT
Effective	71%	95
Neutral	26%	35
Ineffective	2%	3
Total	**100%**	**133**

Q.26.

Will the impact of Covid-19 influence your clients to: (multiple selections are permitted)

RESPONSE	%	COUNT
Consider transitioning into an umbrella fund arrangement	6%	18
Consider switching between umbrella fund providers	5%	14
Review their default investment strategy	16%	47
Consider introducing guaranteed portfolios for members closer to retirement	13%	37
Review their trustee endorsed annuity strategy	3%	9
Review their retirement fund cost structures	16%	47
Pause all decisions relating to their Retirement Fund arrangements till the end of the pandemic	17%	49
Reconsider the benefit of providing retirement funding to employees	5%	13
Too early to comment	19%	54
Total	**100%**	**288**

Q.27.

Turning our focus to healthcare, will the impact of Covid-19 influence your clients to:

RESPONSE	%	COUNT
Review and/or introduce alternative medical schemes to reduce costs	14%	26
Consider Primary Healthcare solutions for lower earning employees	22%	42
Consider introducing Medical Gap Cover benefits to employees	9%	15
Review occupation healthcare infrastructure including wellness programs, vaccination regimens and on-site clinics	13%	25
Too early to comment	27%	51
Not applicable	17%	33
Total	**100%**	**192**

SECTION 03.

EMPLOYERS &
FUNDS
SURVEY

Q.01.

How many active members are in your Retirement Fund?

RESPONSE	%	COUNT
Fewer than 20	15%	34
20 -50	8%	19
50 - 300	16%	38
300 - 1,000	18%	42
1,000 - 5,000	21%	49
More than 5,000	22%	50
Total	**100%**	**232**

Q.02.

Does your Employer have operations elsewhere on the African continent?

RESPONSE	%	COUNT
Yes	31%	71
No	64%	148
No	5%	13
Total	**100%**	**232**

Q.03.

Has your Employer applied for a temporary suspension of retirement fund contributions due to the economic impact of the lockdown?

RESPONSE	%	COUNT
Yes	27%	61
No	73%	166
Total	**100%**	**227**

N.B. Questions 04 through 08 were only asked of those who responded "**Yes**" to Question 03.

Q.04.

For how many months do you expect the suspension of retirement fund contributions to last?

RESPONSE	%	COUNT
1	4%	2
2	2%	1
3	41%	23
4	11%	6
5	9%	5
6 or more	21%	12
Unsure	13%	7
Total	**100%**	**56**
Mean	**4.34 Months**	

Q.05.

Has your Employer also suspended the payment of group insurance premiums?

RESPONSE	%	COUNT
Yes	4%	5
No	93%	52
Unsure	4%	2
Total	**100%**	**56**

Q.06.

How did you communicate the suspension of retirement fund contributions and/or group insurance premiums to employees / members?

RESPONSE	%	COUNT
SMS	14%	16
Email	39%	46
Telephone	4%	5
Intranet	8%	10
WhatsApp	17%	20
Other	13%	15
Unsure	1%	1
Webinar	5%	6
Total	**100%**	**119**

Q.07.

To what extent do you have contact details for your employees / members?

RESPONSE	%	COUNT
Not at all	2%	1
We have contact details for a minority of employees / members	4%	2
We have contact details for all employees / members	63%	35
We have contact details for a majority of employees / members	32%	18
Total	**100%**	**56**

Q.08.

To what extent do you believe that your employees / members are aware of these suspensions?

RESPONSE	%	COUNT
Fully	79%	44
Moderate	20%	11
Not at All	2%	1
Total	**100%**	**56**

Q.09.

Please indicate whether the reactions of your employees / members entailed any of the following reactions:

RESPONSE	%	COUNT
Concern regarding their retirement funding outcomes	29%	21
Concern regarding whether they would be covered for Covid-19 related insurance claims	14%	10
Concern regarding the loss of insurance coverage	7%	5
Gratitude towards the employer	32%	24
No reactions noted	19%	14
Total	**100%**	**74**

N.B. Questions 10 through 13 were only asked of those who responded "**No**" to Question 03.

Q.10.

Do you anticipate your Employer requesting a suspension of retirement funding contributions at some point over the next 6 months?

RESPONSE	%	COUNT
Yes	8%	12
No	75%	120
Unsure	18%	28
Total	**100%**	**160**

Q.11.

Have you received any requests from employees / members to temporarily suspend retirement funding contributions?

RESPONSE	%	COUNT
Yes	26%	41
No	74%	119
Total	**100%**	**160**

Q.12.

How are you communicating with employees / members during the lockdown?

RESPONSE	%	COUNT
SMS	9%	39
Email	32%	137
Telephone	13%	56
Intranet	8%	32
WhatsApp	13%	54
Social Media	3%	13
At the Workplace	12%	50
Unsure	1%	3
Did not communicate	2%	9
Webinar	8%	32
Total	**100%**	**425**

Q.13.

To what extent do you have contact details for your employees / members?

RESPONSE	%	COUNT
Not at all	2%	2
We have contact details for a minority of employees / members	4%	6
We have contact details for all employees / members	73%	116
We have contact details for a majority of employees / members	20%	32
Unsure	2%	4
Total	**100%**	**160**

Q.14.

Which of the following potential mechanisms do you believe best support the financial needs of employees / members given the economic impact of the lockdown?

RESPONSE	%	COUNT
Temporary suspension of retirement fund contributions	22%	102
A once-off tax exempt withdrawal from their retirement funds for active members but with limitations	12%	54
Enabling borrowing against members' fund credits not only for housing loans	8%	35
Enabling payment of group risk premiums from members' fund credits	7%	28
Enabling payment of medical aid premiums from members' fund credits	4%	20
Increasing the tax free amount in respect of members who retire, die or are retrenched to R1m (currently R500k) for the next 12 months	20%	90
Reducing the earliest retirement age for members being retrenched across all Retirement Funds to 50 so that they enjoy more favourable taxation of the lump sum benefit	10%	44
Implementing guaranteed investment portfolios in your default investment strategy especially for pre-retirees	5%	22
Reducing the minimum drawdown percentage on living annuities to 0.50% (currently 2.50%)	10%	23
Increasing the maximum drawdown percentage on living annuities to 20.00% (currently 17.50%)	5%	12
None of the above	10%	28
Total	**100%**	**458**

Q.15.

Given the economic destruction arising from Covid-19, which of the following measures do you believe should be considered to help to rebuild SA's economy?

RESPONSE	%	COUNT
Implementation of prescribed assets on Retirement Funds' investment strategies	5%	21
A once-off tax on Retirement Funds to raise government revenue	1%	6
The reintroduction of taxation on the income earned by Retirement Funds	1%	6
Reducing tax incentives on Retirement Fund contributions	5%	20
Retirement Funds to invest in reputable local unlisted companies experiencing financial distress due to the lockdown	9%	39
Retirement Funds to increase asset allocation to SA Government Bonds	9%	37
Retirement Funds to increase asset allocation to sustainable infrastructure development in South Africa	19%	79
Retirement Funds to increase focus paid to Environmental, Societal & Governance (ESG) factors when investing	9%	38
Use of a material portion of existing Unclaimed Benefits Funds to benefit poorer communities	19%	81
Retirement Funds to increase asset allocation to alternative investments such as Private Equity, Infrastructure and Unlisted Debt	11%	47
None of the above	11%	47
Total	**100%**	**421**

Q.16.

Have you evaluated the solvency of your group insurance service providers to ensure that they are able to manage the potential shock of the pandemic?

RESPONSE	%	COUNT
Yes	42%	84
No	58%	118
Total	**100%**	**202**

Q.17.

To what extent do you believe that group insurance premiums will increase due to the impact of Covid-19?

RESPONSE	%	COUNT
Less than 10%	36%	72
10-20%	23%	46
More than 20%	5%	11
No increases anticipated	36%	73
Total	**100%**	**202**

Q.18.

Should group insurance premiums increase as a result of the impact of COVID-19, how would you react?

RESPONSE	%	COUNT
Rebroke insurance benefits to find cheaper premiums	36%	108
Reduce the level of benefits provided	7%	20
Restructure benefits to be more affordable	24%	73
Reduce the types of benefits provided	2%	7
Accept the increases if they are justifiable	27%	81
None of the Above or Not Applicable	4%	13
Total	**100%**	**302**

Q.19.

Would you consider reviewing your disability income benefits structure (if applicable) to help control costs into the future by applying one or more of the following changes?

RESPONSE	%	COUNT
Change from flat benefit structures to income tax rate scaled benefit structures	17%	41
Increase the waiting period	10%	23
Reduce benefit levels	13%	30
Terminate the disability income benefits policy	2%	4
No need to review the disability income benefits policies	53%	124
Disability income benefits not available via Employer	6%	14
Total	**100%**	**236**

Q.20.

Over the course of the lockdown, did your Employer / Retirement Fund experience an increase in:

RESPONSE	%	COUNT
Member investment switches	5%	17
Members' queries and/or complaints on their investment performance and/or fund values	25%	81
Requests from members to access portions of their retirement funds	17%	50
The utilisation of retirement benefits counselling	5%	15
Requests for financial advice from members	8%	26
Digital engagement from members	8%	26
Members' queries regarding their group risk benefits	9%	29
None of the above	24%	76
Total	**100%**	**320**

Q.21.

Over the course of the lockdown, how would you rate the communication to you, your Retirement Fund or Employer from service providers?

RESPONSE	%	COUNT
Effective	69%	134
Neutral	26%	51
Ineffective	2%	3
Not Applicable	4%	7
Total	**100%**	**195**

Q.22.

Over the course of the lockdown, how would you rate communication to members / employees from service providers?

RESPONSE	%	COUNT
Effective	53%	104
Neutral	32%	62
Ineffective	6%	12
Not Applicable	9%	17
Total	**100%**	**195**

Q.23.

Over the course of the lockdown, how would you rate the operational resilience of your retirement funding service providers?

RESPONSE	%	COUNT
Effective	69%	134
Neutral	23%	44
Ineffective	4%	7
Not Applicable	5%	10
Total	**100%**	**195**

Q.24.

Over the course of the lockdown, how would you rate the ability of services providers to engage you digitally?

RESPONSE	%	COUNT
Effective	75%	146
Neutral	17%	34
Ineffective	3%	5
Not Applicable	5%	10
Total	**100%**	**195**

Q.25.

Over the course of the lockdown, how would you rate the appropriateness of your Retirement Fund's investment strategy?

RESPONSE	%	COUNT
Effective	56%	109
Neutral	34%	66
Ineffective	4%	7
Not Applicable	7%	13
Total	**100%**	**195**

Q.26.

Over the course of the lockdown, how would you rate the Retirement benefits counselling provided to employees / member?

RESPONSE	%	COUNT
Effective	44%	85
Neutral	33%	65
Ineffective	9%	18
Not Applicable	14%	27
Total	**100%**	**195**

Q.27.

Will the impact of Covid-19 influence your Employer and/or Retirement Fund to:

RESPONSE	%	COUNT
Consider transitioning into an umbrella fund arrangement	2%	7
Consider switching between umbrella fund providers	2%	7
Review their default investment strategy Review the default investment strategy in respect of your employees/members	10%	33
Consider introducing guaranteed portfolios for members closer to retirement	10%	34
Review their trustee endorsed annuity strategy	3%	11
Review the cost structures in your Fund	15%	48
Pause all decisions relating to their Retirement Fund arrangements till the end of the pandemic	12%	41
Reconsider the benefit of providing retirement funding to employees	2%	8
Introduce online financial advice via tools such as Zoom	8%	25
Too early to comment	30%	99
Not applicable	5%	17
Total	**100%**	**330**

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