Sanlam Benchmark Survey 2017

Turning hindsight into foresight
Reflections: Looking back in order to look ahead

My team and I have been debating the concept of the ‘evolution of employee benefits’ for the past five years. To gain an understanding of how the landscape is morphing, I spent some time contemplating how far we’ve come since 2013. This is a necessary step that provides critical insights into what we need to focus on to achieve our desired future state.

Despite the macroeconomic challenges that South Africa faces, we’ve seen a marginal increase in the employed adult population from 14,7 million in 2013 to 15,5 million in 2016. According to Statistics SA, the unemployment rate based on the official number has increased from 25,3% in 2013 to 26,6% in 2016.

These official statistics are not comforting at all. Our member studies indicate that the two primary
dependencies for financial wellness are the level of education and employment status (access to financial resources).

As an industry we need to consider the longer-term economic consequences when not all employed people have access to medical aid provision or are contributing to retirement funds. The number of employed people who have access to medical aid decreased from 31.7% in 2013 to 29.8% in 2016 and those contributing to a retirement fund decreased from 48.5% to 46.5% over the same period.

In the past, employers may have considered the impact of the financial strain on their employees’ productivity. Another consequence is the effect it has on the career trajectories of those individuals. A key finding of our member studies is that financial constraints may act as a trigger for employees to search alternative employment. They do this either to access retirement benefits or to move for more competitive or a wider range of employee benefits.

Five-year trends from an intermediary’s perspective

Despite all the industry’s efforts to educate members, the overall level of understanding around retirement benefits remains very low. Over the years we’ve also seen an interesting shift in demand for various types of products. For economic reasons it would appear that the industry is focusing on group risk benefits (funeral cover, dread disease cover and income replacement). This is a positive trend as many members are largely underinsured. Regulatory changes are driving cost pressures, which in turn are forcing the industry to reduce complexity and increase the transparency of costs. The conversion from stand-alone retirement funds to commercial umbrella funds continues unabated.

There also appears to be a misalignment between the employer’s value proposition
and the range of benefits offered, bearing in mind that everything that matters to employees is entrenched in their employer’s value proposition.

We’ve consistently intimated that financial wellness as a nation and on an individual level requires a shift in thinking and behaviour. Merely being employed and/or earning an income (at any level) doesn’t necessarily equate to positive financial outcomes. The key differentiators are behaviour and attitude towards money.

Employee value propositions (EVPs) are broadly defined as the full spectrum of benefits that an organisation offers its employees in return for their time and skills. It includes the total rewards package such as remuneration, retirement and risk benefits, flexible work arrangements and wellness programmes.

We tested the concept of an EVP and whether it was aligned to the full suite of benefits offered. It was pleasing to see that 47% of stand-alone funds and 35% of participating employers in commercial umbrella funds indicated that their value propositions took a holistic view of their employees.

As a result, a wide range of financial and healthcare benefits, including wellness, healthcare clinics, childcare, financial assistance for children’s education and financial planning are included in the total rewards offered. But only half of employed individuals enjoy these rewards for as long they’re economically active.

Money conversations as a potential stimulus to bring about the change in attitude

Volumes have been written about millennials, the generation born between 1982 and 2004.

Around a quarter (23%) of our member studies sample is part of this generation.

We tested their attitudes on a number of issues relating to work, career and income trajectories as well as their financial wellness. What stood out for me was the candour with which young professionals speak about their career aspirations and the ability to quantify their potential future earnings.

Young professionals are indeed self-directed and want to take charge of their futures. There was little evidence to support a defined benefit mindset. When asked about future career opportunities, three key themes became apparent:

- Innovation
- Ownership and accountability
- Upskilling.

Their optimism about career opportunities centres around advancements in technology across all sectors. Self-directed individuals take responsibility for personal growth and development and believe upskilling is pivotal to their career advancement and security. However, their optimism is tempered by an overwhelming uncertainty based on a wide spectrum of macroeconomic challenges. Increasingly, open architecture with a focus on holistic benefits for members will probably be the solution for this generation who are gearing themselves up for multiple income streams from different sources. Those with less of an entrepreneurial spirit will look to corporates to provide a wide range of benefits.

For this generation, the goal isn’t so much about money as it is about living life on their terms. It’s about having options in their careers and all other aspects of their lives.

Looking back, it’s apparent how much has changed in five years.

As you turn the pages of this Benchmark issue, you’ll hopefully be inspired to consider our take on what the future may hold for this industry.

Danie
The traditional definition of wellness is an organised, employer-sponsored programme designed to support employees (and, sometimes, their families) as they adopt and sustain behaviours that reduce health risks, improve quality of life, enhance personal effectiveness and impact positively on the organisation's bottom line.

In this context, the relevance of employee benefits programmes has never been greater. This is due to South African employees’ reliance on their retirement funds to build and create their lifetime wealth, and the responsibility placed on the individual to take ownership of their funding journey by investing within a defined contribution environment. Up until now, employers have not been able to evaluate, compare and track their employees’ financial wellness.

The Sanlam Financial Wellness Benchmark is a newly developed diagnostic tool that will enable engaged employers to:

• Measure the level of financial wellness within their organisations – in aggregate and by various demographic dimensions

• Measure up to similar organisations or demographic segments

• Implement targeted interventions to address the area of concern highlighted by the tool within a specific segment of their workforce, and then measure the impact of the intervention over time on their workforce’s financial wellness status.

It considers aspects of financial wellness beyond retirement planning and evaluates indebtedness, financial literacy and package composition, among other variables.

The Sanlam Financial Wellness Benchmark allows employers to manage the financial wellness of their employees efficiently and effectively by demystifying the drivers of financial stress and identifying the problem areas.

Viresh Maharaj
CEO: Client Solutions at Sanlam Employee Benefits
The headline to this article is the same as that of a 2016 *Personal Finance* editorial by the acclaimed (but now retired) financial journalist and consumer champion Bruce Cameron.

The editorial highlighted that employers should consider a long list of issues when selecting an umbrella fund provider and specifically highlighted costs, administration and governance as key factors in the decision-making process.

The 2016 Sanlam Benchmark Survey took this recommendation one step further, listing no fewer than 16 important considerations to take into account when selecting an umbrella fund. But listing these 16 factors is surely only the start. The specific weighting that should be given to each of these factors is possibly an even more interesting question.
The Umbrella Fund Study of 100 participating employers within commercial umbrella funds has for some years asked two questions directly relevant to this topic:

1. What were the three main reasons for joining an umbrella fund?
• More cost effective/cost savings
• Ease of administration/less time consuming
• Less responsibility/less fiduciary responsibility.

2. In cases where employers had considered moving to another umbrella fund, what were the three main reasons for doing so?
• Cost savings
• Better investment returns
• Better/easier administration.

Research commissioned by Investec during 2016* reported that in deciding which umbrella fund to use, ‘the decision is heavily influenced by an employee benefits consultant’. This research also found that ‘in the large majority of cases, there is a strong correlation between the consultant and the umbrella fund which trustees ultimately choose’.

Interestingly, participating employers themselves don’t rank the consultant’s influence as a key factor in their decision to join an umbrella fund, according to the Benchmark Survey responses. But I suspect that’s simply because this is never a factor formally rated in the decision-making process. My own experience aligns with the Investec findings that the consultant’s recommendations are very often the key determinant of what unfolds.

Taking 2016’s finding further

This year we decided to survey 16 employee benefits consultants on how they weighted the 16 identified key considerations in choosing an umbrella fund. Note that these consultants are independent of any commercial umbrella fund or sponsoring company. By restricting the survey to truly independent consultants, we were hoping the answers would not be biased by what might suit any specific provider’s own umbrella fund.

Good consultants vital to a competitive industry

* Who is picking your umbrella fund?  
– Moneyweb article by Patrick Cairns, 13 December 2016.
We not only asked these consultants to rank the 16 attributes, but also to assign percentage weightings to each factor, totaling 100%. This added a degree of rigour to the process, and ensured each respondent had to think very carefully about each weighting.

The overall results are shown as Figure 2 below.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of mentions</th>
<th>Umbrella Fund Benchmark weighting</th>
</tr>
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<tr>
<td>Administration delivery</td>
<td>15</td>
<td>22%</td>
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<tr>
<td>Charges and costs</td>
<td>16</td>
<td>20%</td>
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<tr>
<td>Investments</td>
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<tr>
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<tr>
<td>Preservation and annuitisation</td>
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<td>2%</td>
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<tr>
<td>Experience</td>
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<tr>
<td>Black economic empowerment</td>
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<td>1%</td>
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<tr>
<td>National footprint</td>
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</tbody>
</table>

One can quite rightly argue that other factors might also be important, or that the weightings should vary between different employers, or that there is an overlap between some of the factors. I agree – but nonetheless for the first time this survey enables industry players to start debating these important considerations with our clients and to move us closer to a situation where rational factors take precedence in the umbrella fund decision-making process.

It’s certainly interesting that the independent consultants differed slightly from participating employers by placing a slightly higher weighting on administration delivery than on costs. Could these be insights from practical experience?

I’d like to propose that these 2017 results be used as base Umbrella Fund Benchmark weightings for employee benefit consultants to use when debating the choice of umbrella fund provider with their clients. The Benchmark weightings should be up-weighted or down-weighted as appropriate in each case, but at least these can be used as a basis for discussion with clients.

Bruce Cameron ended his editorial by stating, ‘The question that must be answered is which fund will best suit the needs of the employers and employees’. Hopefully this research takes the industry one step closer to answering that question.
‘The question that must be answered is which fund will best suit the needs of the employers and employees’.

BRUCE CAMERON
The need for advice in an ever-changing environment

Many people will remember advisers driving from house to house selling various financial products to willing buyers at a time when purchasers of these products bought based on a concept we refer to as ‘trust’.

I’m sure we can all agree that the landscape has changed a bit since the above-mentioned days.

In a world in which the rate of change is faster than the rate at which research can actually keep up, gaps have opened up for those who think innovatively and are willing to taking chances. This scenario plays out daily in the fast-growing start-up industry, where gaps or opportunities are identified as a result of improvements in technology and changes in legislative environments. Start-ups have learnt to capitalise on this.

Advisers to retirement funds and their members

Let’s focus on advisers – both to retirement funds and members of retirement funds. We’re aware of the numerous changes in legislation over the recent past and the manner in which advice had to be adapted to meet the demands of these changes. With the imminent adoption of default regulations, the role of the adviser has come under the spotlight even more so than in the past.

Is your adviser able to hold your hand along the process of assessing the needs of your fund members and then suggest appropriate defaults based on these findings? Umbrella funds have been the forerunners in preparing for the adoption of default regulations. Not surprisingly, the default in-fund annuity option from the different providers varies significantly from one provider to the next. It’s clear that this adds another consideration when deciding on the appropriate umbrella fund for your staff and only a capable adviser will be able to take you through this process.

Avishal Seeth
Branch Head: Gauteng Simeka Consultants & Actuaries
Retailisation of institutional products

Aside from the obvious changes in regulations, the changing face of the actual client has resulted in providers and advisers being forced to review their approach and strategy when it comes to an advice framework. Understanding that we’re now in a world of ‘retailisation’ of institutional products (umbrella funds and the like) is key to ensuring relevance in the industry. The actual clients are less and less the boards of trustees and joint forum members, but more so the employers and fund members themselves. This change in focus has caught many advisers unaware.

The rise of digital

By far the biggest contributor to the adviser evolution is the rapid advance of technology. Much has been said about the younger generations (millennials and Gen Y) and their inclination towards making financial decisions based on information provided digitally. The comfort they display in using digital platforms has made many Gen X and baby boomers cringe, but we can’t blame them as they’ve grown up in a digital world and have learnt to use technology as a part of everyday life. Removing technology from these so-called digital natives may even render them helpless, according to some!

Yet even older generations have embraced technology and the ease and convenience it’s brought about. In fact, the Nielsen Institute in the US conducted research on social media usage across all generations that showed Gen X was the biggest user of social media.
Robo-advice

Robo-advice has been a hot topic recently and the Benchmark research shows three out of five umbrella fund members and half of stand-alone fund members would consider using robo-advisers. This represents the biggest shift in the retail advice landscape in recent years. Offshore we’ve seen an increase in the use of so-called algo trading where advanced and complex mathematical models are used to make high-speed decisions and transactions in financial markets via computers that control trading at a rate that humans can’t replicate. The real attraction of these algo-trading platforms is that they come at half the cost of traditional investment portfolios.

Face-to-face advice

We believe that advice today is more important than ever. In the South African socio-economic context, we know that as a nation we need to start saving. This must be enabled by advisers because there’s a lot of misinformation regarding changing tax laws that does not encourage a savings culture. The environment has also led to members being disengaged when it comes to savings and eventually these same people have to rely on social grants, their children and the greater society for support. The future excellent adviser must consider this and engage members in a constructive manner so they understand that their ultimate financial outcomes depend on their current choices.
Consolidation

Much has already been said about consolidation in the past. Some of the challenges it brings about include cost pressures, increased competition and buyouts of smaller advisory firms.

The Retail Distribution Review (RDR) entails major regulatory reform, which in turn will bring about significant advisory reform for many financial advisers. Independence is going to be true independence in future, with registered financial advisers not being tied to any single product house. This includes ownership as well as percentage of revenue tests. For product supplier agents (PSAs), there are benefits of being associated with a product house, including:

• capital
• security
• brand strength
• the already proven success of this model.

But does this model allow for the client to experience all possible solutions? The real risk is that the client isn’t exposed to a solution that may be more suitable as a result of the PSA selling only its product house solution. It’s clear from the steps advisers and product houses have taken so far that implementation of RDR is less a regulatory debate than a debate about business models.

Future excellent advisers will look to diversify their income streams rather than focusing solely on advising a board of trustees regarding the retirement fund. The future adviser will recognise that there must be symbiosis between all service providers that attend to all employee benefits components, including medical aid, financial planning and wellness.

The excellent adviser will also recognise the value of financial literacy training for members as the start to empowering individuals to make the right decisions at all points in their lifetime (not just when changing jobs or retirement), so they’re able to optimise the total wellness outcomes of themselves and their families.

We believe the excellent adviser will be someone who’s able to combine all of these aspects - the retirement fund, medical aid, wellness offerings, financial literacy and engaging member communication – so that the whole is greater than the sum of its individual parts. This is the adviser who will thrive well into the future.
In the 2017 Benchmark Survey, half of the respondents indicated that the law does not provide boards with sufficient guidance when it comes to reaching a decision on the allocation of a death benefit.

Section 37C(1) of the Pension Funds Act states that regardless of the provisions of a law or the rules of a registered fund, a benefit payable on the death of a member does not automatically fall into the member’s estate – it must be dealt with in terms of that section of the Act.

For example, where a deceased member is survived by dependants and nominees, the board of trustees of the fund must distribute the death benefits fairly and equitably between them. The board must decide in what proportions the benefit must be paid – it’s not compelled to award an amount to each dependant and nominee.

The challenge for trustees starts with identifying and tracking qualifying dependants and nominees. Almost 90% of participating respondents in the 2017 Benchmark Survey said these were the main factors causing delays in the
allocation of death benefits. Needless to say, the duty of a board to trace all potential beneficiaries and then to make an equitable distribution isn’t an easy one to fulfil. Consequently, 54% of respondents in the 2017 Benchmark Survey indicated that they first made a provisional or preliminary decision and gave potential beneficiaries the opportunity to provide input before the board made a final decision on allocating the death benefit.

Once the dependants and nominees of a deceased member have been identified, the board must consider the financial position and other circumstances of each. The Act doesn’t specify what factors the board should consider in deciding an equitable distribution. However, the Pension Funds Adjudicator has consistently held that in exercising an equitable distribution, the board needs to consider a wide range of factors, including the:

- actual wishes of the deceased
- financial status of each beneficiary
- future earnings capacity of each beneficiary
- extent of their dependency
- ages of the beneficiaries
- relationship with the deceased
- amount available for distribution.

In the 2017 Benchmark Survey, it was found that in:

- 81% of cases the trustees took the deceased’s wishes into account
- 95% of cases the trustees took the extent of dependency into account
- 93% of cases the trustees took the ages of the beneficiaries into account
- 83% of cases the trustees took the relationship with the deceased into account
- 60% of cases the trustees took the amount available for distribution into account.

It’s important to note that no single factor may be overemphasised to the total exclusion of the others.

In the case of Dobie NO v National Technikon Retirement Pension Fund, the Pension Funds Adjudicator commented as follows:

‘One thing is certain about section 37C, it is a hazardous, technical minefield […] potentially extremely prejudicial to both those who are expected to apply it and to those intended to benefit from its provisions. It creates anomalies and uncertainties, rendering it most difficult to apply. There can be no doubt about its noble and worthy policy intentions …’

By imposing a duty on the board to trace dependants, the section advances their interest. However, there is legitimate concern about the practical difficulties of tracing dependants. One solution may be for the section to identify more precisely the steps that must be taken, including an appropriate form of publication, and then allowing for a final distribution to known dependants and nominees at the expiry of a reasonable period, culminating in indemnification of the board against further claims.

Perhaps the time has come to revamp section 37C – not only to make the task of boards easier, but also so members are clear early on about how the benefit payable on their death will be applied.
Building well-balanced default investment portfolios
In current times, when markets are volatile and political uncertainty across the world seems to be the norm, it’s become increasingly difficult for members and trustees to make the right investment choices. Ultimately this is having an impact on the investment strategies funds make available for their members.

Over the past year, there’s been a significant decrease in the percentage of surveyed respondents who offered their members investment choice, with 44% of stand-alone respondents not offering member investment choice compared to 36% in the 2016 survey. Similarly, as many as 36% of umbrella respondents didn’t offer member investment choice, up from 23% in 2016. However, only one out of 200 respondents from both the 2017 stand-alone and umbrella surveys didn’t offer a default investment choice, compared to the nine respondents in the 2016 surveys. So how does one go about constructing a default investment portfolio that best meets the needs of many different members in a fund?

**Investing is all about choice; the optimal choice between risk and reward.**

Shifting the focus from equity to include alternative asset classes

While equity remains the key asset class on which investors rely to produce inflation-beating returns, building portfolios relying solely on this source of return is no longer appropriate. Financial markets have evolved significantly, with a number of the alternative asset classes starting to stake a claim for inclusion in mainstream portfolios. This is definitely a good thing as one is able to build more efficient and robust portfolios that are better able to navigate turbulent financial markets.
The traditional reliance on equity stems from investors exploiting the equity risk premium, the additional return that equity offers for being exposed to equity risk. History shows that exploiting this premium over long periods adds significant value. However, there are periods when one isn’t adequately compensated for being exposed to equity risk. As such, relying on equity as the sole driver of portfolio returns leads to portfolios that are inefficient and subject to volatility.

**Exploiting additional risk premia**

Fortunately, the equity risk premium is not the only risk premium one is able to exploit. There are a number of other risk premia that the long-term investor can access. These typically include the:

- **Credit risk premium** – additional return compensation for taking on credit risk
- **Illiquidity risk premium** – additional risk premium earned for investing in assets with lower liquidity (such as infrastructure investing)
- **Term risk premium** – additional return earned as compensation for investing in longer-dated instruments
- **Inflation risk premium** – compensation for the risk of unexpected (rising) inflation eroding real returns.

By focusing on alternative risk premia, we remove the emphasis from traditional asset classes in portfolio construction, and show greater awareness of the drivers of underlying returns. Traditional asset classes become purely a tool to access the relevant risk premia that the portfolio is looking to exploit. These asset classes can then be blended to provide the desired (optimal) blend of risk and return at an overall portfolio level.

**Life stage default strategies**

The percentage of respondents using a life stage default investment strategy has remained around 60% for both the 2016 and 2017 surveys. However, it is interesting to note that there has also been a big increase in umbrella respondents who now use a life stage approach, from 51% in 2016 to 60% in 2017.

According to the 2017 survey, 95% of stand-alone respondents switched their members to a less volatile portfolio seven years before retirement, compared to 83% of umbrella respondents. Although this final investment phase seven years before retirement is very important – particularly from a capital protection perspective – the biggest part of a member’s retirement savings will be built up through the accumulation phase.

Looking at the Sanlam Lifestage Accumulation portfolio through the lens of risk premia provides a deeper insight into the portfolio and its asset allocation. In addition, the rationale behind the recent enhancements also comes into sharp focus. The current asset allocation of a fund is made up of South African equities (split between active and passive allocations), South African nominal and inflation-linked bonds, hedge funds as well as foreign equities and nominal bonds.

**Combining active and passive**

Within the SA equity allocation, the main driver of returns is the equity risk premium. This remains an important driver of future returns. There are, however, a number of different ‘strategies’ within the SA equity allocation. At a high level, this would be the split between active and passive. This is in line with 70% of stand-alone survey respondents and 77% of the umbrella survey respondents who preferred a combination of active and passive strategies in their portfolios. An equity allocation managed actively by a number of specialist equity managers provides access to the skill premium highlighted earlier. The remainder of the SA equity allocation managed passively is designed to harvest the equity risk premium at a lower cost. In addition to traditional replicating passive strategies, the passive allocation has evolved to include
derivative-based tracking solutions as well. In so doing, it enables further risk premia, in addition to the equity risk premium, to be extracted. In particular, the credit risk premium and, to a lesser extent, the illiquidity risk premium, can be accessed.

The merits of active versus passive management should also be carefully considered separately for each asset class. In the Sanlam Lifestage accumulation portfolio, the SA nominal bond building block, until recently, had half of its assets managed passively. This was changed to allow the entire allocation to be managed on an active basis, primarily so we could find skilled active bond managers (and hence increase the exposure to the skill premium).

In addition, the characteristics of the All Bond Index (ALBI), which is predominantly made up of government bonds, means the passive element within the SA nominal bond allocation has not harvested the credit risk premium to the fullest possible extent. The nominal bond allocation also exploits both the term premium as well as the inflation risk premium. The range of underlying return drivers within the nominal bond portfolio highlights the central role that this allocation plays. Taken together with inflation-linked bonds that provide access to the illiquidity and term premia, it’s clear to see why the traditional balanced fund combination of 60% equity, 40% bonds was so popular.

While some may argue, legitimately, that alternative investments such as hedge funds don’t by themselves constitute an asset class, given the diverse nature of the underlying strategies, they can nevertheless complement traditional asset classes very well in a balanced fund. The key element that hedge funds provide is access to the manager skill premium. If one is able to identify skilled hedge fund managers (and this is the rationale behind not having a strategic allocation as it may not be possible to find such managers), it’s possible to add significant diversification and value through an allocation to these strategies.

The role of a multi-manager investment strategy

The final broad allocation in most balanced funds is to foreign assets, both equity and bonds. While these asset classes mirror the exposure to the risk premia that their South African counterparts bear, they do offer more through exposure to a foreign currency, which provides excellent diversification benefits.

Unfortunately, one is only able to access the full range of return premia by using active investment strategies. This means it’s crucial to identify skilled active managers in the relevant asset classes. Using a multi-manager approach allows the portfolio to further benefit from the skill premium by having a skilled multi-manager select the underlying active managers.

In addition to adding value from selecting outperforming managers, the multi-manager has discretion to take tactical asset allocation decisions, further exposing the overall portfolio to the skill premium.

Harvesting a number of risk premia

Moving away from a focus on traditional asset classes and towards a focus on the risk premia exploited allows one to build a more diversified and robust portfolio. It helps investors move away from an exclusive focus on the equity risk premium and highlights the essential role that other asset classes, including alternatives, fulfil in the overall portfolio context.

Uncertain times create opportunities. To give members access to such opportunities, a carefully created default portfolio should be created using experts in different specialist building blocks to make those difficult investment choices.

Rhoderic Nel
CEO: Investments at Sanlam Employee Benefits
We’re constantly measuring our wealth and health. The number of steps we take per day, our average heart rate per session, our smart shopper points, rewards, e-bucks, share portfolios … name it and we measure it.

But how often do we consider or know whether we’re on track for arguably one of the most important events of our lives, namely retirement? And more importantly, do we know what to measure or even how to get there?

The Benchmark Survey 2017 confirmed the two most important questions and burning issues in the financial planning process:

• Exactly how much should I retire with? What is the final amount?
• How much must I save (monthly/annually) to retire comfortably?

Why are people so confused? In the Benchmark Survey 2017, 100% of funds indicated that they have a stated target pension expressed as a net replacement ratio (NRR or PPR) towards which trustees actively work. The NRR is the percentage of a member’s pre-retirement income paid out by a pension plan on retirement, divided by the pre-retirement salary. It’s a common measurement that can be used to determine the effectiveness of your pension plan. But is this measure effective if 40% of funds in the 2017 Benchmark Survey believe NRR is an unsuitable one for determining whether a member is on track for retirement? The main reasons given are that members don’t understand the measure and the fact that there are too many variables and assumptions used in calculating the ratio. One of the biggest areas of concern is that most of the funds define pre-retirement salary as ‘pensionable remuneration’, or PEAR, which can be any percentage and is normally less than 100%.

It could be argued, therefore, that NRR isn’t a suitable measure for determining whether an individual is on track for retirement. So what should your number be?

An easy number/measure to help members understand the exact amount they should save is to express retirement savings as a multiple of their current salary at different points in their life.

The question is, what multiple of current salary should a member save, assuming a retirement age of 65 years, with the following assumptions:

• A member saves 15% per year of annual salary (including the annual bonus/13th cheque)
• Investment returns of 10% per year
• Salary increases of 6.5% per year
• In the event of a married couple, both members contribute towards retirement savings.

How old is old? 95-year-old New York style icon Iris Apfel has launched a selection of WiseWear jewellery that allows wearers to monitor their health and keep track of their physical activities.

Retirement matters: What’s your number?
Karen Wentzel
Head: Annuities at Sanlam Employee Benefits

<table>
<thead>
<tr>
<th>Years worked</th>
<th>Multiple of current salary saved</th>
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Based on these assumptions and a goal that a member should have a multiple of 15 times his or her final salary saved at retirement, the table on the left sets out some goalposts along the road to retirement.

And remember that 15 is more than just a number. Currently, for each R1 million a 65-year-old member saves, a male will receive a monthly pension of around R 6 000 per month and a female (because of longer life expectancy) around R 5 400 per month, growing with inflation every year. So to invest in an inflation-linked annuity at the age of 65, a member would need to have saved 15 times their final salary by age 65 to afford to buy an annuity that will replace their salary.

**What if you haven’t started saving at age 25?**

For those members who haven’t yet started saving by age 25, saving only 15% per year won’t lead to a multiple of 15 times final salary at retirement. Late starters will need to save much more every month. The table on the right sets out the percentage of salary you need to save if you start saving for the first time later in life.

<table>
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<th>Years worked</th>
<th>Percentage of salary needed to save</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>15%</td>
</tr>
<tr>
<td>35</td>
<td>24%</td>
</tr>
<tr>
<td>45</td>
<td>43%</td>
</tr>
<tr>
<td>50</td>
<td>60%</td>
</tr>
</tbody>
</table>

1. The golden rule is to never cash out your retirement savings when changing jobs. This is still the biggest mistake members make during their lives. Don’t be tempted to access your money to pay off debt, buy consumables or upgrade your lifestyle. Don’t even cash in your allowable third of your pension fund or retirement annuity, as the long-term need for a higher monthly pension is much greater than the short-term benefits of any luxuries you’re going to buy with your money.

2. Retirement savings should be as important a financial priority as a well-deserved holiday, rather than just a nice-to-have budget item. Know exactly what percentage of your monthly salary and annual bonus you have to save, and put in place an automatic debit order so you’re not tempted to spend your salary on consumables.

3. Invest wisely, tax-efficiently, and know exactly what you’re paying in fees. Seek advice from a certified financial adviser and be sure to invest according to your investment time horizon. Investing for retirement is a very long-term goal, so make sure you’re sufficiently invested in aggressive assets (such as equities or listed property) to give you inflation-beating investment returns of at least 10% annually after fees.

If you don’t have a goal, there’s nothing to aim for. Make sure that you know your ‘final number’ and make the best effort to stick to the plan to achieve it.

The rules of thumb discussed may not account for all personal circumstances. A sudden spike in your salary may mess up your multiples for a year or two, but be sure to have your retirement savings goalposts in place. Allocate any extra cash to retirement and not luxuries. This is the best possible gift you can give yourself in your golden years.

**In what products should you save for retirement?**

The current group of Generation Z (millennials) who don’t have any idea of what a defined benefit regime is, don’t know anything about NRRs and are moving on to a new mindset of flexibility and choice, should consider a combination of products. You may consider saving not only in a traditional pension or provident fund, but also supplement your retirement savings with retirement annuities, a tax-free savings account, retail government bonds or an ordinary unit trust, which will give you (and especially Generation Z) more flexibility in terms of investment choice and accessibility to their investment.

**Other methods to boost retirement investment**

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Our commitment to your future has been recognised. Again.

We’ve been awarded the 2017 FIA Product Supplier of the Year in the Employee Benefits category. It’s the 5th time in 7 years, an independent award that’s judged by the experts in the industry - financial advisers. For our clients, it’s reassurance that their retirement savings are in good hands and for our employees, it’s affirmation that what they’re doing, they’re doing very, very well. Because that’s what makes us Wealthsmiths.”