“Predicting the future is easy ... getting it right is the hard part.”
"All working individuals should make adequate provision for retirement through mandated savings, the state should provide measures to make pensions safe and sustainable."
“In order to improve on the social programmes that we have implemented over the years, we aim this year to complete the work already started to reform our system of social security so that phased implementation can start as early as possible …

The principle guiding this approach is that, over and above social assistance provided through the government budget, we need to explore the introduction of an earnings-related contributory social security system that is informed by the principle of social solidarity …

This will mean that all South Africans will enjoy membership of a common, administratively efficient social insurance system,

The Minister of Finance will further elaborate on these issues in the Budget Speech.”
“The Government Position Paper on Social Security Reform is expected to be released this year for discussion.

Issues to be dealt with include the funding and nature of the National Social Security Fund ... How the private sector occupational and retirement funds will fit into the entire system, and the possible regulatory structure.”
“The Government Position Paper on Social Security Reform is expected to be released this year for discussion.

Issues to be dealt with include the funding and nature of the National Social Security Fund ...

How the private sector occupational and retirement funds will fit into the entire system, and the possible regulatory structure.”
Comprehensive social security In South Africa
Discussion document

PREPARED BY THE INTER-DEPARTMENTAL TASK TEAM ON SOCIAL SECURITY AND RETIREMENT REFORM

March 2012
The Ministerial Committee on the Review of the Implementation of the White Paper for Social Welfare (1997) led by Prof Vivienne Taylor dedicated a chapter on social security in the Report and recommended that Cabinet should:

a. Adopt and implement the proposals on comprehensive social security.

b. Adopt the options with strongest alignment to the proposals in the 2012 paper, for establishment of a single National Social Security Fund.

c. Adopt the proposals within the next six months as a comprehensive package to reduce possibilities of resistance as happened when the measures related to withdrawal of provident fund contributions was introduced without the full reform package having been adopted.

On 08 June 2016, Cabinet approved these recommendations.

- The Comprehensive Report was launched by the Minister of Social Development on 04 October 2016.

- Based on this Cabinet decision, there is need to accelerate consultations with stakeholders, including NEDLAC.
SOUTH AFRICA'S SOCIAL SECURITY SYSTEM

**Pillar 1**
Social Assistance (Non-contributory - poverty alleviation)
- Old Age
- Disability
- Child Support
- Foster Care
- Care Dependency
- War Veterans
- Social Relief of Distress

**Pillar 2**
Social Insurance (Contributory - Mandatory)
- Unemployment Insurance Fund (UIF)
- Compensation Funds
- Road Accident Fund (RAF)
- National Health Insurance (NHI)
- National Social Security Fund (NSSF)

**Pillar 3**
Voluntary (Supplementary) Arrangements
- Pension and Provident Funds
- Retirement Annuities
- Group Life Schemes
- Collective Investment Funds; Long-term savings and endowment funds and other discretionary savings and insurance products

2007 2016 2030
A single centralised fund will promote broader risk pooling across the whole workforce.
It will allow for standardized benefits for all contributors, thus reducing complexity.
It will address issues of portability of benefits.
**Economies of scale** will reduce administration costs.
Inclusivity (especially for **low income groups**).
It will ensure a minimum level of protection for all participants.
It will foster **social solidarity** among low and high income earners.
Current Proposal at Nedlac

<table>
<thead>
<tr>
<th>SALARY PER ANNUM (000'S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>170</td>
</tr>
<tr>
<td>1200</td>
</tr>
</tbody>
</table>

- National Social Security Fund
- SOAP
- Provider Sponsored Funds
- Additional Discretionary Savings
- Compulsory
- Voluntary
- Tax Incentivised
- Compulsory

Source:
Retirement Fund Industry - Social Security
Potential Outcomes and positioning for the future
Actuarial Society of South Africa sessional meeting, April 2017
Source: Comprehensive Social Security in South Africa discussion document Inter-departmental Task Team on Social Security and Retirement Reform
model in a nutshell

- Funded DB, from productively employed
- C is similar to B, same only for funding and earnings related social security
- Unfunded DB, front focus

Social Security (DB)
- Death, disability, funeral, unemployment, medical
- Retirement (hybrid)
  - Income based with guarantees

Cross-subsidisation - solidarity

Accreditation (factors)

Source: Masilela E, Sanlam Employee Benefits Information Sheet, April 2008

2007 2009 2030
many will not make it to retirement

the impossible task of modelling over 75 years

distribution of household income

job creation is a priority

Source: Department of Social Development, September 2007

Argentina 2006 11,052 9.5%
Brazil 2003 60,362 9.1%
Chile 2005 6,965 6.9%
Czech Republic 2005 6,718 7.9%
Korea 2005 23,356 3.7%
Mexico 2006 43,216 3.2%
Philippines 2005 35,625 7.3%
Poland 2006 58,927 13.8%
Singapore 2006 1,881 4.5%
South Africa 2006 51,046 25.5%
Turkey 2005 22,856 10.3%

Average 9.1%
2007

Do we really want to force the NSSS if that means people:

- not being able to afford their own home?
- giving their children a worse education?
- struggling to find a formal job?

2009

Julius Malema 2009 warnings

"We voted for President Zuma. We say to the president: we no longer want squatter camps. We want houses which have water and electricity.

We say to President Zuma: our votes were not cheap, they were expensive. He must pay us by giving us free education until (the) first degree... by giving us quality jobs... we mean proper salaries and better working conditions,"
the left will prevail!

1. right quadrants are extremely difficult to implement
2. right quadrants are not politically important
3. inertia is the most powerful force in the universe
% Increase in Social Old Age Grant

- 2004 election
- 2009 election
- 2014 election
“So don’t worry about tomorrow, for tomorrow will bring its own worries. Today’s trouble is enough for today.”
industry in 2015
1. Single retirement funding vehicle
2. Use taxation as a lever to drive desired outcomes
3. Optimal use of “power of defaults” (soft compulsion) e.g. preservation
4. Industry agreed total expense ratios
5. Enhance effective competition
6. Deregulation commission

Some Examples of Quick Wins

- Sponsor role clearly defined
- ... created competitive market with consumer choice / mobility
- ... intermediary / consultant role vital
- Economies of scale now the norm
- Risk management embedded within offering e.g. investment consulting function or risk rebroking function
- Professional governance
- New member representivity model in place
- Consultant playing pivotal role in communication & member advisory functions
- Fee for service models with value add in all layers

### 2015 FSB Annual Report

<table>
<thead>
<tr>
<th>breakdown of funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>employer-sponsored funds</td>
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<tr>
<td>institutional umbrella funds</td>
<td>10</td>
</tr>
<tr>
<td>union-sponsored funds</td>
<td>20</td>
</tr>
<tr>
<td>industry funds</td>
<td>5</td>
</tr>
</tbody>
</table>

### 2015 Umbrella Funds

- 2007
- 2009
- 2030
this can work
how fast
...is up to us!
The paradigm shift ...

“These are structural changes and a paradigm shift. At the end of the day government has one interest and that is to ensure that the beneficiaries of the retirement process benefit from their own savings.”
So how has it worked?
## Umbrella Fund growth over 6 years

<table>
<thead>
<tr>
<th>Sponsor</th>
<th># Umbrella Funds</th>
<th>Total Assets 2011</th>
<th># Members 2011</th>
<th>Total Assets 2017</th>
<th># Members 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander Forbes</td>
<td>4</td>
<td>R 19,317,010,574</td>
<td>174,341</td>
<td>R 64,518,889,020</td>
<td>302,261</td>
</tr>
<tr>
<td>Grant Thornton</td>
<td>2</td>
<td>R 1,053,448,030</td>
<td>10,743</td>
<td>R 3,252,014,037</td>
<td>14,014</td>
</tr>
<tr>
<td>Liberty</td>
<td>6</td>
<td>R 17,391,229,914</td>
<td>318,181</td>
<td>R 32,816,721,695</td>
<td>329,133</td>
</tr>
<tr>
<td>Momentum</td>
<td>2</td>
<td>R 9,420,243,453</td>
<td>152,746</td>
<td>R 42,526,004,554</td>
<td>321,275</td>
</tr>
<tr>
<td>NBC</td>
<td>1</td>
<td>R 556,954,321</td>
<td>10,827</td>
<td>R 2,226,809,464</td>
<td>19,919</td>
</tr>
<tr>
<td>NMG</td>
<td>2</td>
<td>R 420,140,269</td>
<td>9,723</td>
<td>R 4,341,493,163</td>
<td>34,634</td>
</tr>
<tr>
<td>Old Mutual</td>
<td>4</td>
<td>R 14,433,620,980</td>
<td>291,554</td>
<td>R 92,980,441,047</td>
<td>394,840</td>
</tr>
<tr>
<td>Sanlam</td>
<td>3</td>
<td>R 4,861,240,455</td>
<td>76,945</td>
<td>R 22,663,035,131</td>
<td>178,381</td>
</tr>
<tr>
<td>Willis Towers Watson</td>
<td>2</td>
<td>R 1,770,050,061</td>
<td>40,414</td>
<td>R 6,665,465,498</td>
<td>15,265</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>R 69,223,938,057</strong></td>
<td><strong>1,085,474</strong></td>
<td><strong>R 271,990,873,609</strong></td>
<td><strong>1,609,722</strong></td>
</tr>
</tbody>
</table>

% Growth per annum: 25.6% 6.8%

Source: Registrar of Pension Funds data based on funds’ audited financial statements
“Commercial umbrella funds represent the fastest growing segment of DC retirement fund assets...”

Credit Suisse Equity Research, August 2016
effective competition increasing
Current Top 10 Sponsors (by assets)
effective competition increasing
New Entrants

ALLANGRAY
Discovery
SYGNIA

2007 2017 2030
Taking the guesswork out of how costs can eat up your retirement savings

charges decreased between 2011 and 2016

Actuarial Society 2016 Convention 23 – 24 November 2016
Cost disclosure standard is coming!

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2017</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>investment fees</td>
<td>0.73%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>administration fees</td>
<td>0.56%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>consulting fees</td>
<td>0.32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>other</td>
<td>0.05%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>total</td>
<td>1.66%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The only important charge measure?
### Benchmark Survey - Umbrella Funds Study

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee contributions</td>
<td>5.4%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>8.7%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Death benefit premiums</td>
<td>(1.7%)</td>
<td>(1.3%)</td>
</tr>
<tr>
<td>Disability benefit premiums</td>
<td>(1.8%)</td>
<td>(1.1%)</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(0.7%)</td>
<td>(0.7%)</td>
</tr>
<tr>
<td>Total provision for retirement</td>
<td>9.9%</td>
<td>14.2%</td>
</tr>
</tbody>
</table>

39% to 56% Net Replacement Ratio!
21 IMPORTANT QUESTIONS
when selecting an umbrella fund

2007  2008  2030

By obtaining the answers to these 21 questions, employers and employees will be in a much better position to look for the most suitable umbrella fund for them. By using this model as a tool, this will be able to identify the best structure. We have developed specific business practices and governance structure to suit both the employers and their employees. The plans for making that model work will vary as in their funds.

Misa Banda
Head: Consumer Education
Financial Services Board

Johan Dierman
Managing Director
Santam Employee Benefits
Main reasons for joining Umbrella Fund ...

- 68% cost savings
- 53% better / easier administration
- 35% less fiduciary responsibility
- 22% better benefits
- 19% better investment returns

2007 2017 2030
### SA Broker Market Insights – 2015 Report

#### LISP Stated Buyer Values

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Operational Service</td>
<td>9.1</td>
</tr>
<tr>
<td>2</td>
<td>Price</td>
<td>8.0</td>
</tr>
<tr>
<td>3</td>
<td>Technology</td>
<td>8.0</td>
</tr>
<tr>
<td>4</td>
<td>Financial Strength</td>
<td>7.7</td>
</tr>
<tr>
<td>5</td>
<td>Fund Range</td>
<td>7.7</td>
</tr>
<tr>
<td>6</td>
<td>Product Features</td>
<td>7.5</td>
</tr>
<tr>
<td>7</td>
<td>Remuneration</td>
<td>7.5</td>
</tr>
<tr>
<td>8</td>
<td>Relationship Management</td>
<td>7.3</td>
</tr>
<tr>
<td>9</td>
<td>Investment Advice</td>
<td>6.8</td>
</tr>
<tr>
<td>10</td>
<td>Brand Strength</td>
<td>6.6</td>
</tr>
</tbody>
</table>
### Key considerations in recommending an Umbrella Fund

<table>
<thead>
<tr>
<th>Factor</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration delivery</td>
<td></td>
</tr>
<tr>
<td>Charges and costs</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td>Transparency</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td></td>
</tr>
<tr>
<td>Communication delivery</td>
<td></td>
</tr>
<tr>
<td>Track record</td>
<td></td>
</tr>
<tr>
<td>Governance infrastructure</td>
<td></td>
</tr>
<tr>
<td>Insured benefits</td>
<td></td>
</tr>
<tr>
<td>Client satisfaction / retention</td>
<td></td>
</tr>
<tr>
<td>Quality of advice</td>
<td></td>
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<tr>
<td>Preservation and annuitisation</td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td></td>
</tr>
<tr>
<td>Sponsor covenant</td>
<td></td>
</tr>
<tr>
<td>Black economic empowerment</td>
<td></td>
</tr>
<tr>
<td>National footprint</td>
<td></td>
</tr>
</tbody>
</table>

**Survey of 16 independent Employee Benefits consultants**
Survey of 16 independent Employee Benefits consultants

Key considerations in recommending an Umbrella Fund

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of Mentions</th>
<th>Umbrella Fund Benchmark Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration delivery</td>
<td>15</td>
<td>22%</td>
</tr>
<tr>
<td>Charges and costs</td>
<td>16</td>
<td>20%</td>
</tr>
<tr>
<td>Investments</td>
<td>12</td>
<td>11%</td>
</tr>
<tr>
<td>Transparency</td>
<td>14</td>
<td>10%</td>
</tr>
<tr>
<td>Flexibility</td>
<td>12</td>
<td>7%</td>
</tr>
<tr>
<td>Communication delivery</td>
<td>12</td>
<td>6%</td>
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<td>Track record</td>
<td>11</td>
<td>4%</td>
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<td>Client satisfaction / retention</td>
<td>9</td>
<td>3%</td>
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<tr>
<td>Quality of advice</td>
<td>6</td>
<td>2%</td>
</tr>
<tr>
<td>Preservation and annuitisation</td>
<td>5</td>
<td>2% v 8%</td>
</tr>
<tr>
<td>Black economic empowerment</td>
<td>3</td>
<td>1%</td>
</tr>
<tr>
<td>National footprint</td>
<td>4</td>
<td>1%</td>
</tr>
</tbody>
</table>

2007 2017 2030
Q. are umbrella funds changing the retirement industry for the better?

“Within the not-for-profit model where funds are run by trustees, the typical behaviour from the vast majority is that they will say they have a set of rules, they have compliance in place, and they will wait for regulation to change before they change anything themselves,” Gluckman says. “There’s nothing in it for them if they innovate, in fact quite the opposite. If something goes wrong, they could be personally liable.”

Umbrella funds, however, are able to move ahead of the regulation. They can watch consumer dynamics and innovate accordingly.

“Some of the regulations like default options or preservation may be a damp squib by the time they come in because the industry has already moved ahead,” Gluckman says “Some umbrella funds are offering these already.”
6 Major trends shaping the EB Industry in 2030
Trend 1 - Consolidation

Significantly accelerating retirement fund and provider consolidation

R1 billion+ funds remaining on standalone basis will be the exception not the norm
disappearance of small commercial umbrella funds
disappearance of small administrators
Trend 2 - Governance

Increasingly higher standards of governance for the few remaining retirement funds

law suits / scandals will expose poor governance

‘Up your game ... or get out of the game’

Ant Lester, Willis Towers Watson
October 2016
Trend 3 - Technology

“Most jobs involve a number of tasks or processes. Some of these tasks are more routine in nature, while others require judgement, social skills and other human capabilities. The more routine and rules-based the task, the more amenable it is to automation. It turns out that workers will have greater employment opportunities if their occupation undergoes some degree of computer automation. As long as they can learn to use the new tools, automation will be their friend.”

THE WALL STREET JOURNAL.
**Trend 4 - Member focus**

**blurring of institutional and retail worlds**

member becomes the customer

retirement funds from day one of employment to last death of member / spouse

open funds?
“Sanlam Umbrella Fund... for some years now it has been a trend-setter and one of the better umbrella funds available”

Bruce Cameron
Personal Finance, 30 April 2016
fewer but better independent EB consultants

technology to replace rote tasks

ew new skills bridging institutional and retail worlds

everent problem solving skills

ewcellent communication skills
<table>
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“It is not in the stars to hold our destiny but in ourselves”

William Shakespeare