CHOOSE A RETIREMENT SAVINGS DESTINATION OR YOU MAY NEVER GET THERE

Johannesburg, 16 May 2016: The 2016 Sanlam BENCHMARK Survey revealed that 50% of standalone retirement funds and one in three umbrella funds have not chosen a 'destination' for their members' retirement journeys. "This is equivalent to getting into a motor vehicle with no idea of where you are going, members simply end up where they end up," said Viresh Maharaj, chief marketing actuary at Sanlam Employee Benefits.

He told attendees at the 2016 BENCHMARK symposium – that having a 'destination' in the form of a minimum income objective upon retirement was a non-negotiable for members as it empowered decision makers at retirement funds to develop and implement appropriate strategies.

To cut through the industry jargon Maharaj introduced a 'road trip' as an analogy for the retirement journey. A motor vehicle will transport a passenger from a departure point to a destination whereas a retirement fund is the vehicle that 'carries' a member from 'day one' to 'retirement day'. In order to actively get members working towards their retirement saving goals, the destination needs to communicated from Day one of the retirement planning journey

Unfortunately choosing a destination does not guarantee a trouble-free journey, nor does it guarantee arriving 'alive'. The survey found that only 75% of trustees at standalone funds and fewer than 40% at umbrella funds believed that their default portfolios would enable their members to achieve their income objectives. The consequences are unnerving given that 80% of a typical fund's members are invested in the default option.

There is another problem with sub-par performances from default portfolios due to the income objectives of funds being calculated as a percentage of Pensionable Earnings (PEAR) rather than a percentage of total earnings.

Given that the average PEAR across the 2016 Survey was 80% the retiree who achieves a net replacement ratio of 75% will only benefit from 60% (75% of 80%) of their final gross salary in the first year of retirement. "We have enough data to support that members are actively reducing their PEAR values in order to maximise take home pay at the potentially unrecognised expense of retirement funding," said Maharaj. He added that the use of PEAR as a means to structure employee benefits was outdated and should be revisited.

According to Maharaj the industry will have to address shortcomings with regards to default portfolios and contributions flexibility too. "We will have to consider combinations of default portfolios to enable a greater variety of retirement savers to set and achieve minimum targeted incomes at retirement," he said.

As many as three quarters of fund members do not avail of the flexibility in employee fund contributions. "Members have the opportunity to make a material difference to the quality of their lives in retirement by increasing contributions to the maximum," said Maharaj. Doing so could result in a 56% increase in standalone fund values (66% for umbrella funds); assuming 10% annual return over 20 years). It is also rare for individuals to take up the opportunity to make annual voluntary contributions. The option to do so is enabled on 87% of funds, but requires active choice on the part of the member to implement.

Poor preservation practices remain an impediment to retirement savings success, yet one in 10 standalone funds and one in 20 umbrella funds do nothing to encourage their members to preserve. “It is widely known that the lack of preservation is the key criteria for the inability of individual members to accumulate enough retirement capital,” said Maharaj.

PENSIONERS advise: ‘*START PLANNING EARLIER*’

Pensioners that participated in the survey had two ‘pearls of wisdom’ for young savers. The core group advised them to start saving early, but the real gem came from the affluent pensioners who advised them to start planning earlier.

“This speaks to the value of proper financial planning and advice and the impact that it can have over the long term on the member’s ability to create wealth and a better quality of life in retirement,” said Maharaj.

“Proper financial advice acts as a navigation tool that can take a member from their starting point, turn by turn, to a better retirement outcome and continue to do so through retirement itself.” Despite this three quarters of fund members only receive advice 10 years prior to retirement day.

Retirement fund members need a well-structured default portfolio, sensible intervention in the form of appropriate advice from ‘day one’ of their retirement journey, modern member communications and exemplary member services if they hope to reach their retirement destination intact.

“We have identified the components that need to change in order to achieve better retirement outcomes, but retirement fund administrators and product suppliers cannot achieve success on their own,” concluded Maharaj. “Sanlam is one part of the system – each retiree forms another – successful retirement is about planning the journey together so that we can collectively drive towards a better future.”

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