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Employers, workers and financial fitness

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About 80% of employees in the formal sector in South Africa belong to an employer-sponsored retirement fund. New employees usually have to make important decisions about fund investment strategies shortly after their induction on "day one" - but according to a recent retirement survey, 7 out of 10 employees never review these initial decisions regarding their retirement benefit options.

"The number of fund members not engaging with their retirement savings at all after joining an employer-sponsored retirement fund is a matter of serious concern. In taking a system's view of the retirement funding challenge, it is clear that employers - who are the critical link between employees and the fund - need to play a much more engaged role in combating member apathy and influencing better behavior, ultimately ensuring superior retirement outcomes," said Viresh Maharaj, chief marketing actuary for Sanlam Employee Benefits.

Maharaj was speaking at the recent 2015 Sanlam BENCHMARK Symposium in Johannesburg, at which the results of the 34th Sanlam BENCHMARK Survey - a comprehensive annual review of South Africa's retirement industry - were released.

Maharaj said the entire retirement funding journey - from joining an employer, reviewing investment and insurance options, changing jobs to retiring - needs to be revisited in order to optimise the system to set up employees for success rather than failure.

For instance, he said new employees were under tremendous pressure to make decisions about their lifetime savings goals and investment strategies at a stressful time in their employment - on the first day.

"This practice has negative consequences, since employees typically do not have the financial nous, advice or guidance at this point to make appropriate choices and 72% do not revisit these decisions. The effect of poor decisions is exacerbated by the finding that they simply wait too long to materially affect their retirement outcomes positively, with 5 out of every 10 only starting to plan for their retirement within 10 years of retirement."

"Crucial decisions are made without proper advice, adequate communication or appropriate guidance, when new employees are on the spot and under pressure. Engaged employerism could therefore make a crucial difference to retirement outcomes."

An area of concern is at benefit review stage as, in the context of poor mathematical and financial literacy, annual benefit statements do not engage employees and he questioned whether the information contained in such statements actually gets through to employees as they are too complex for the average employee to understand.

"What about a series of visual cues - like presenting figures using a traffic robot type format (red, yellow and green) - that provide an immediate visual impact that everyone can relate to in order to engage employees to take corrective action to build lifetime wealth? These could be accompanied by recommendations derived via algorithms to mitigate any shortfalls and immediate, employer-based access to financial products."

A further improvement would be to communicate the tax consequences of early withdrawal from a fund as the lack of preservation is one of the leading drivers for the poor retirement outcomes faced by South African fund members.

"Employees are not aware of the immediate effect of not preserving and are even less aware of the overall impact on their ability to create lifetime wealth."

Employees should be informed when leaving an employer that under current tax laws, an early withdrawal of, say, R1-million will result in a tax payment of R207 000, not to mention the loss in growth of these savings over many years. For a 45-year-old who earns 10% per anum till retirement, this sacrifice of R207 000 would result in an approximate R1.4-million reduction in their lifetime wealth.

"By transparently communicating with and engaging employees at the decision point, employers can influence them towards making more financially responsible decisions."

Employers should explore multiple initiatives to raise awareness about the retirement savings journey. For instance, a detailed breakdown of their monthly retirement contributions and deductions as well as their retirement wealth value delivered to each fund member by SMS could spark ownership of their respective retirement funding journeys as it creates top of mind awareness.

"People are used to banks sending them SMS's when their salaries are paid and when their debit orders start going off - why not leverage employees' existing familiarity with this platform to engage them on their retirement wealth creation?" asked Maharaj.

A major obstacle to achieving better retirement outcomes for fund members is the capability of human resources (HR) departments in many corporates.

"HR departments are typically focused on procedural commitments and typically do not possess the right skills to provide financial guidance and/or are constrained by FAIS. Also, retirement fund outcomes are not part of their key performance measures - we believe they should be as HR plays a critical role in moving employees to a better retirement outcome as they are effectively the link between the fund and the members. In fact, the BENCHMARK research highlighted that 1 in 3 employees view HR as their single port of call for retirement funding matters. What gets measured gets done and we're not measuring the employer's efficacy in moving employees towards better retirement outcomes despite their critical role in the retirement funding system."

Maharaj said that employers have a significant incentive to care for the financial wellbeing of their employees as research strongly suggests that it can be a source of long-term value and a competitive advantage arising from increased productivity and reduced absenteeism.

"It is time for employers to take bold steps to improve their financial wellness programmes, of which, retirement funding is a core pillar. The culture of funding under abdication and apathy has to come to an end and we can move towards a win-win situation where employees are better equipped to build lifetime wealth and employers benefit from a more productive workforce arising from reduced financial stress. This requires a shift to engaged employerism and it can be done pragmatically and professionally," he concluded.