



Whose responsibility is it to ensure a secure retirement?

Retirement Investing
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March 2011

Despite the billions of Rand that is made out of the retirement industry, members, who ultimately pay the fees receive very little advice.

As a personal finance journalist, the most frequent question I receive is: I am resigning from my company, what should I do with my pension fund? The question I want to ask is why am I getting these questions? Is it because the member does not trust the advice provided by the fund or is it simply because there is no advice?

Judging by the results of the Old Mutual annual retirement funds survey it seems the latter – there is simply no advice for people who need to make serious decisions about their retirement savings. The survey shows that the majority of fund members do not know anything about where or how their funds are invested and fear they will not have enough to retire on.

Most members do not understand their benefit statements and do not know what to do at retirement.

We also know that the majority of people who resign from a company receive a form from their retirement fund with cash as the first option. If the member would like to know more about the other options on the form, they don't even know who to go to within the company or fund – hence they turn to the media. Given the lack of financial education, is it any surprise that while the Old Mutual survey showed that about 43 per cent of members believe that figure is closer to 26 per cent and the reality is probably closer to six per cent.

These are alarming figures and if we are to have any impact on the savings rate in South Africa or increase the number of financially secure retirees, we need to address these issues. But where does the responsibility lie?

Certainly members need to take ownership of their retirement, but in light of the history of moving from defined benefit to defined contribution, have the industry and employers actually geared individuals up for taking on the entire risk of their retirement?

Craig Aitchison of OMAC believes that the defined benefit mind-set prevails; ultimately members believe that the trustees will ensure that they have sufficient fund to retire on. This is understandable as certainly anyone retiring today would have started work in the DB environment. Younger employees would have seen their parents retiring on DB pensions and there is an entire section of the population whose parents were never formally employed and where retirement planning was never discussed. Leaving it to the member and chance is clearly not a responsible response.

The survey also shows that when members are provided with information, only 13 per cent of them act on it. But is that really surprising? Very few people are financially savvy enough to act on the information which is usually provided in a complicated format which they couldn't bother trying to figure out.

As a journalist I have to ask the obvious question – where is the financial advice? You only need to read the paper *Whose Money is it anyway* by Rob Rusconi to understand the incredible feeding chain that lives off the retirement industry. Yet this feeding chain focuses on the investment choice by the trustees, not on member needs.

As Andrew Warren, marketing executive of retail at Liberty highlights, the difference between contributing 15 per cent of your salary vs 11 per cent, or not cashing in when you change jobs, will have a far bigger impact on the final retirement lump sum than if you were invested in a fund that delivered one per cent or two per cent above the average. This is where the industry needs to be focusing if we are to improve our appalling retirement statistics. Aitchison said in many cases trustees are doing a good job in running the fund but if the member is making the wrong choice, then all the good work trustees have done is gone.



Kenny Meiring, head of broker and sales marketing at Metropolitan Employee Benefits, said the problem is that the role of the supplier of retirement product is to provide benefits statements and newsletters, but they don't actually talk to members unless invited by the broker. "Here is part of the problem, companies like us are wholesale providers of products and the actual relationship with the fund and their members lies with the brokerage. This results in much of the communication from the pension fund suppliers happening at too general a level to make it really meaningful for a member," said Meiring, who added that as an industry, "we need to find ways of providing meaningful advice at a member level without incurring the costs that using a qualified financial planner will incur".

Fortunately there is a growing awareness in the retirement industry that more needs to be done to educate members. Some of the financial services companies are working on improving member education. Liberty and Old Mutual are putting more information onto the benefit statements showing, for example, the projected net replacement ratio (NRR) at retirement.

Some funds also include information on what the members' options are to improve the NRR figures such as increasing contributions, increasing the risk profile of the investment or post-postponing retirement. Members who are two years from retirement may also receive a retirement income statement that projects what income they can expect in retirement.

However, Linda Sherlock from Alexander Forbes, said this is only the first stage of the educational process. People tend to look at a piece of paper and file it or throw it away. The challenge is to get them to engage by raising their awareness. You have to explain what a net replacement ratio is and how you can start to implement a retirement strategy. "With human apathy you need to be more in your face, you need more awareness than a piece of paper."

Alexander Forbes holds annual presentations for members to explain the statement and members can also sit down with one of their consultants to discuss their benefit statement and options. At all the major cities, there are retirement seminars to deal with pre-retirement planning.

This forms part of Alexander Forbes' Integrated Personal Financial Management programme and is provided as a complementary service. Many of the major players offer educational workshops for employees from budgeting to retirement planning.

At this point, one can make it the responsibility of the member to take advantage of the information and education on offer. "You can give someone a training programme, a doctor can tell them if they don't exercise they will die; but at some point, the person has to get up and go for a run," said Warren.

While major retirement fund players are offering these types of services, smaller firms may not be quite at the same level. This is where the role of the employer and corporate broker become crucial in raising the awareness of service providers. By ensuring that their staff is financially sound, employers would improve productivity levels – someone who is sitting worrying about money is not focused and could also be tempted into making a quick buck. Employees would welcome assistance with their financial planning and it can become a value add for a company wanting to attract talent.

Employer's who by and large are footing the bill of the retirement fund, need to start demanding more member education.

Aitchison said this tends to be a bigger problem for smaller funds. Large companies can leverage off their infrastructure and economies of scale. For smaller companies, this needs to be done by the umbrella funds. "An umbrella fund will do orientation workshop when they first sign up the company, but it needs to be more frequent, employers need to make that one of their requirements to help drive the attitude."

Corporate brokers needs to move the focus away from the business owner to the members and apply pressure to product providers to offer education. Warren said the focus of the corporate financial adviser is to advise the business not the member. Because of this relationship, you will find that he business owner is serviced by the employee benefit consultant, receiving the one-on-one advice. Therefore the business owner assuming that all the staff is receiving the same service.

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There is also a concern that the number of small companies signing up for retirement funds is declining, possibly because they are not really seeing the benefit for their employees and the costs are higher per member. A corporate broker who is prepared to include financial planning as part of the offering could swing the deal for a business owner who is concerned about the well-being of his or her staff.

Sherlock said corporate brokers are also in a position to offer unfettered advice. For example, an RA is not necessarily the starting point for a person who needs to increase their retirement provision. Are they maximising their contribution in the company retirement fund which is usually more cost effective? If they are a member of a pension fund, have they taken advantage of their R150 per month additional voluntary contribution (AVC)? Or it may be that paying off debt right now is a bigger priority than retirement savings. If the advice is offered as part of the retirement fund benefit, then the broker is less inclined to push product.

While an individual, and their family, may be the only one affected by a lack of retirement provision, underfunding as a collective has far-reaching implications. Not least of all in the undermining of the role of the retirement industry to provide for an individual's retirement needs. This is already clearly demonstrated by government's intention to introduce a centralised retirement fund