



Market moves in favour of low-cost service providers

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THE health of the employee benefit industry is closely aligned with the health of the economy, with the health of people's retirement planning being even more closely aligned.

This parallel growth tends to leave employee benefit companies jostling for market share, especially when the market is experiencing declining national employment levels - as happened over the past two years.

According to Kenny Meiring, head of broker sales and marketing at Metropolitan, established employee benefit companies have lost market share while newer ones without high-cost legacy systems gained. That claim is disputed.

Hugh Hacking, Umbrella Fund Product Manager at Old Mutual Corporate, says Old Mutual has been able to maintain its market share through the downturn.

Meiring says Metropolitan Employee Benefits' revenue declined only slightly through retrenchments among clients, "but the weak economy actually helped us because we're a low cost operator and the price range within which we operate gained favour".

Hacking says despite the regrettable loss of jobs throughout the economy, it was encouraging that employers offering employee benefits continued to do so.

The industry had to pay out a lot of retrenchment-type benefits at the beginning, which is bad news for both the industry and the individual - but the overall impact was minimal when viewed as a whole over the entire industry including post-retirement.

Although there were retrenchments at the beginning of the recession, much of that subsequently came back with Sanlam reporting a negligible decline in membership and Old Mutual reporting an overall increase.

One of the key changes coming out of the recession was a renewed focus and attention on costs and governance, says Hacking. This included a trend towards companies terminating their standalone funds in favour of umbrella schemes.

Metropolitan's response to recession was to cut out unnecessary benefits as far as possible, one of the most wasteful having historically been member investment choice.

"We cut it out where people don't use it, but have it as an option for those that do." As the vast majority of people do not use investment choice, Meiring says this has saved many of their funds 1-2 percent of their funds.

Shifts in market share came not so much from companies folding or terminating their employee benefit programme (because most today realise the benefit of such a programme) but from companies putting their business out to tender to save money.

"We were a gainer from this, and have had a buoyant calendar year in 2010," says Meiring. "We're a relatively new operator and don't have the old-style structures and products or the legacy information systems. To grow our business, we became very tight at the right time to take advantage of the recession. "However, we also know the



older players are retooling and will be coming back strongly to regain their market-share - the client will be the ultimate winner," he says.

A recession tends to cap job-hopping in a big way as people hold desperately onto their existing jobs.

Membership rates of pension funds have been relatively stable over the past 18 months, meaning fewer voluntary withdrawals balanced the level of retrenchments to some degree.

Paul Myeza, CEO of Sanlam Employee Benefits says: "What we saw in 2008/9 as the credit crisis began to bite was people becoming financially stretched and resigning their jobs just to access their pension savings, after which they found jobs elsewhere.

"This was observable from the fact that the level of exits was almost exactly the same as the number of new members taken on by funds.

"At that time, many small businesses already felt the pinch, and we saw lapses even before the recession struck. "We recently performed a clean-up of our book, clearing out those employers who had not contributed for a while, and it was noticeable that a significant number of SMEs had closed down.

"Umbrella funds were originally targeted at SMEs, but in more recent years they became just as popular among larger employers.

"In this segment, while we've lost one or two the attrition rate was insignificant compared to our overall book," says Myeza.

In addition, there has been an increase in the rate of people cashing in their benefits. It has always been a high 63 percent, but over the past 18 months had edged up to 67 percent.

However, once the recession arrived in full force, voluntary exits ceased as people hung on to their jobs in the face of rising retrenchments.

Myeza says Sanlam's total membership was largely Unchanged and this is what many analysts have been claiming was the worst recession for 70 years. While many commentators repeat the mantra that the biggest challenge facing South African society is that a very small proportion of the population with have saved enough to retire 'comfortably' on, Meiring says this misses the real challenge of the industry which is that the bulk of blue collar work-ers do not live long enough to ever retire.

A shocking fact of life in South Africa that seldom really raises alarm bells is the average life expectancy is in the mid-40s, whether through HIV/Aids or other diseases.

Meiring says the focus of employee benefits should therefore be less on 'comfortable' retirement as on maintaining group life cover at five times annual income.

"One of the easy savings that companies look to is to reduce the quantum of group life cover from five to three, and we even get requests for 1-2 times annual salary.

"It doesn't come against a lot of resistance because nobody really expects to die, but it has a far greater impact on lifestyle when an individual does die," adds Meiring.

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“It is situations like this where the employee benefit industry can and should be adding value to the client, advising them where sensible savings can be implemented which do not actually diminish the ultimate benefits that members enjoy,” he says.

A worrying issue here is that government’s National Health Insurance proposal provides for group life cover of only one times annual salary and Meiring says should this become an eventuality he foresees companies withdrawing their company benefit because their employees are now ‘covered’ by a public scheme, effectively leaving people exposed.

Hacking adds that focus should not be shifted from saving for retirement, as the reality is that people who make it to 40 generally go on to live a lot longer, and are often shocked at how much capital they need to survive those retirement years.

“The biggest problem facing the industry is undoubtedly massive rates of non-preservation of retirement benefits.

“We see it in the lower and middle-income segments where people are under financial pressure.

“So employee benefits can only ever be looked at holistically, combined with the fact that individuals cannot look to their employer alone for their whole-life financial security, but have to make other provision for themselves,” adds Hacking.