

Pensions, Benefits and Social Security
4TH PBSS Colloquium

Tokyo, Japan
October 4 (Sun) - 6 (Tue), 2009

South Africa : Member Behaviour Survey and Impact on Net Replacement Ratios

John Anderson



Pensions, Benefits and Social Security
4TH PBSS Colloquium

Present SA System

Tokyo, Japan
October 4 (Sun) - 6 (Tue), 2009

**Low-income
groups and
the indigent**

**Private Cover
(contributory)**

Means Tested Old-Age Grant



Pensions, Benefits and Social Security
4TH PBSS Colloquium

Tokyo, Japan
October 4 (Sun) - 6 (Tue), 2009



**Ensuring Efficacy:
Assessing Member Focus
Strategies**

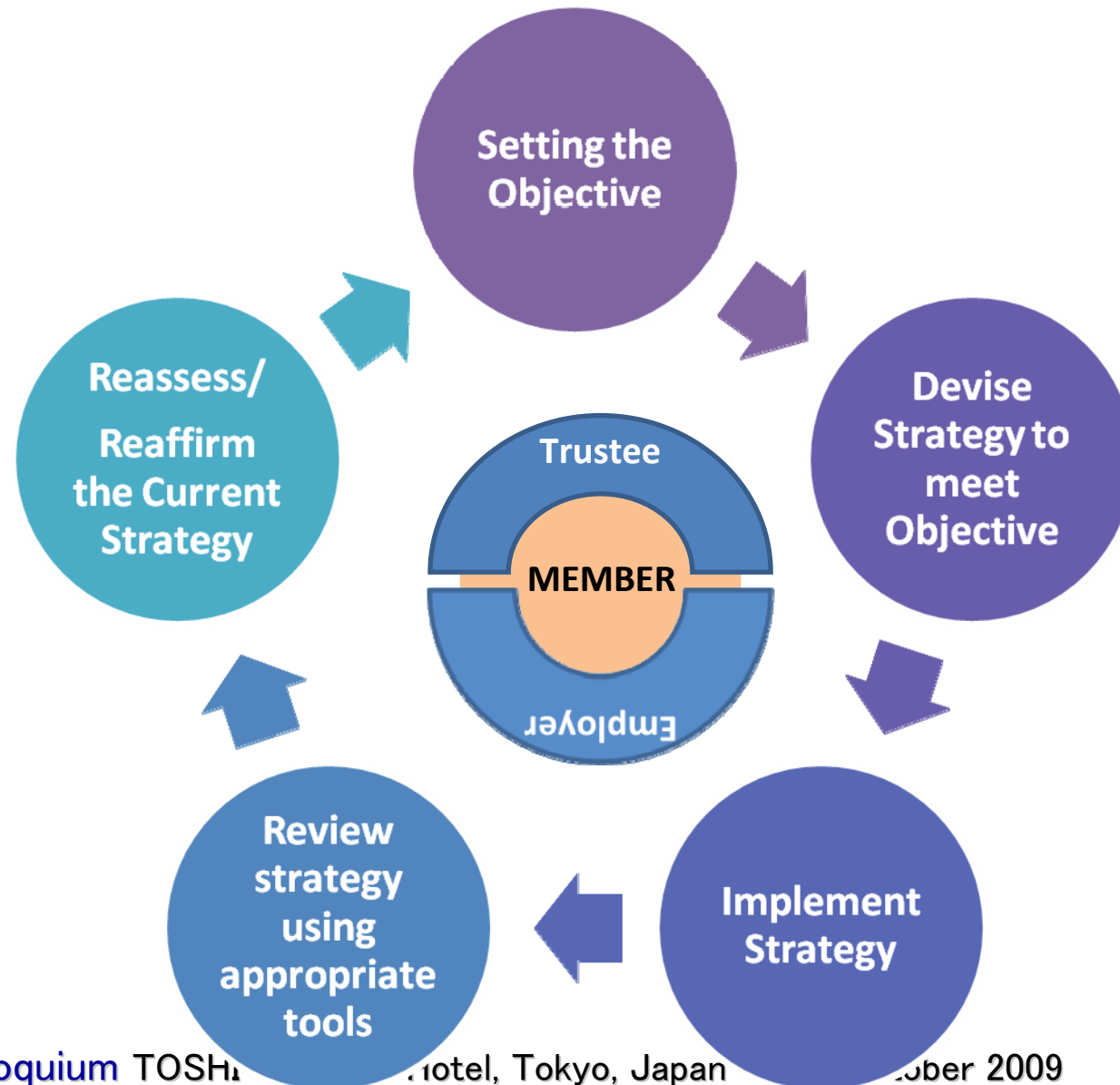
Introduction – the history behind Member Watch™ analyses

- Pre 1990's
 - Defined Benefit Funds requiring actuarial valuations
- 1990's – early 2000's
 - Conversions from DB to DC
 - Defined Contribution Funds requiring actuarial valuations
- Early 2000's – current
 - Surplus legislation : remove reserves in DC Funds
 - Increased sophistication of administration systems to review funding levels
 - Focus on individual member
 - Hence, development of Member Watch analyses
 - ***Individual Member Funding Levels***

Shift in provision of education, support and advice

- **Previously, under predominantly DB system advice provided to boards of trustees and employer**
- **Move to DC requires individual member advice and support**
- **Only certain factors within the realm of control of the Fund (the Trustees)**
- **Others in the control of the employer and members**
- **Need system to :**
 - *Provide partnership between trustees and employer*
 - *Bridge advice / support gap between trustees and members*

Ensuring focus on key issues: the Control Cycle



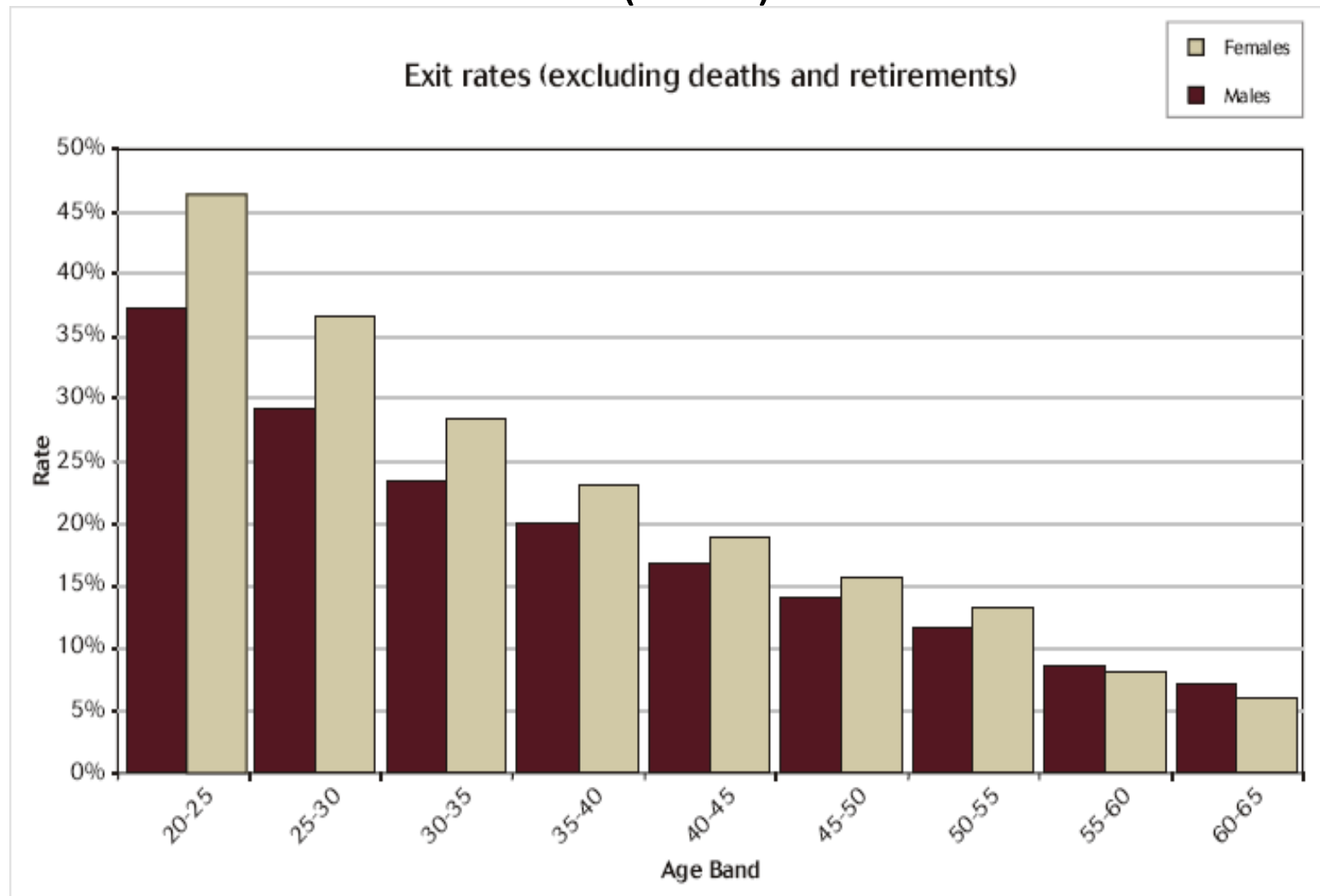
Factors affecting net replacement ratios (“NRR”)

Contributions
-
Costs (Risk + Expenses)
+
Salary Progression
+
Investment Portfolio / s
+
Investment Returns
+
Annuity Factor at Retirement and Retirement Age
-
Losses due to Non-Preservation

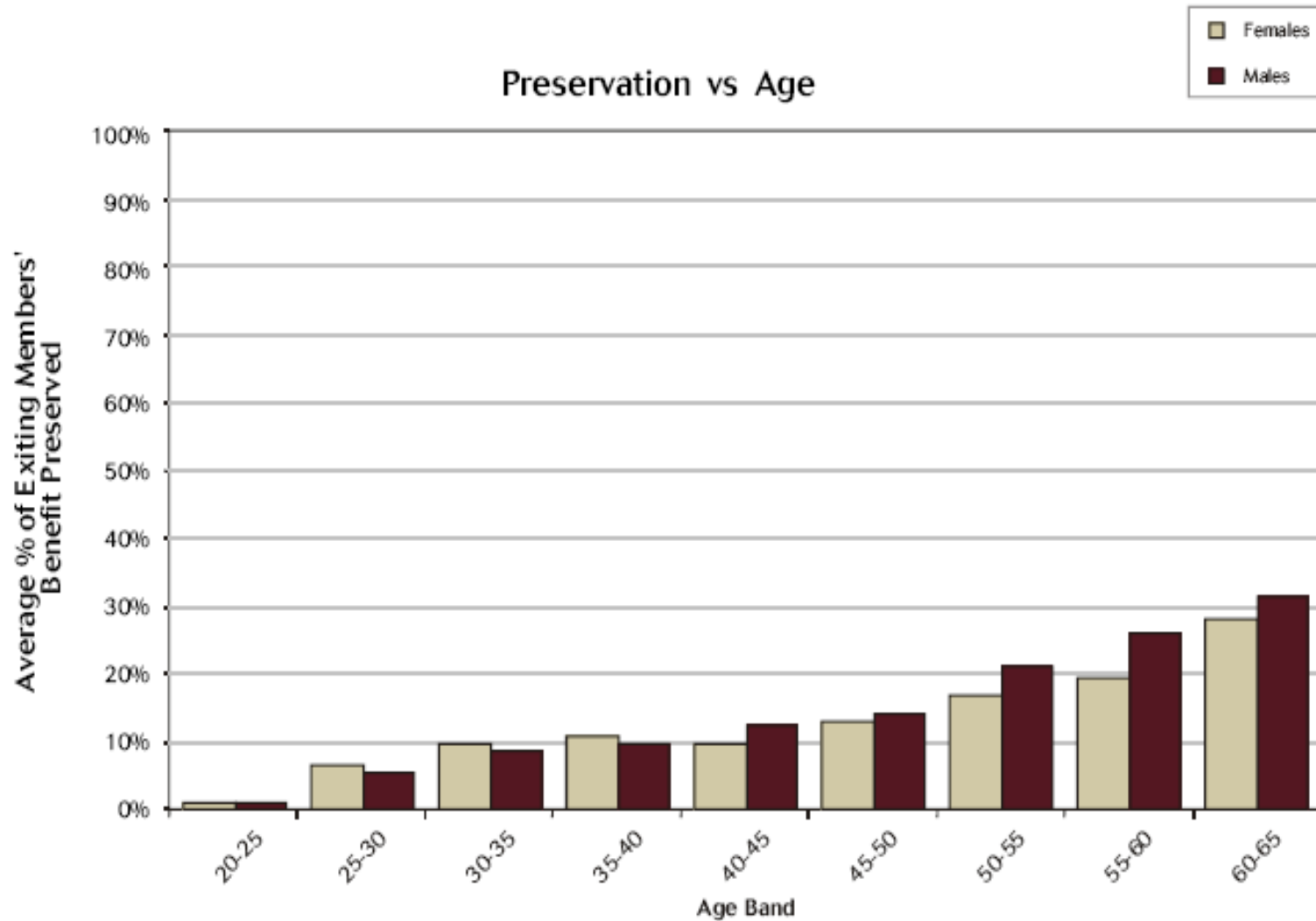
The Member Watch™ Surveys

- Reasonable sample of the South African occupational fund industry
- Analysis of actual factors impacting net replacement ratios
- Benchmark for each factor and indication of trends on member behaviour
- Individual fund analysis
 - *Compare against benchmark*
 - *Develop fund specific strategies*
 - *Assess efficacy of strategies*
- Ensure focus on key issues impacting net replacement ratios

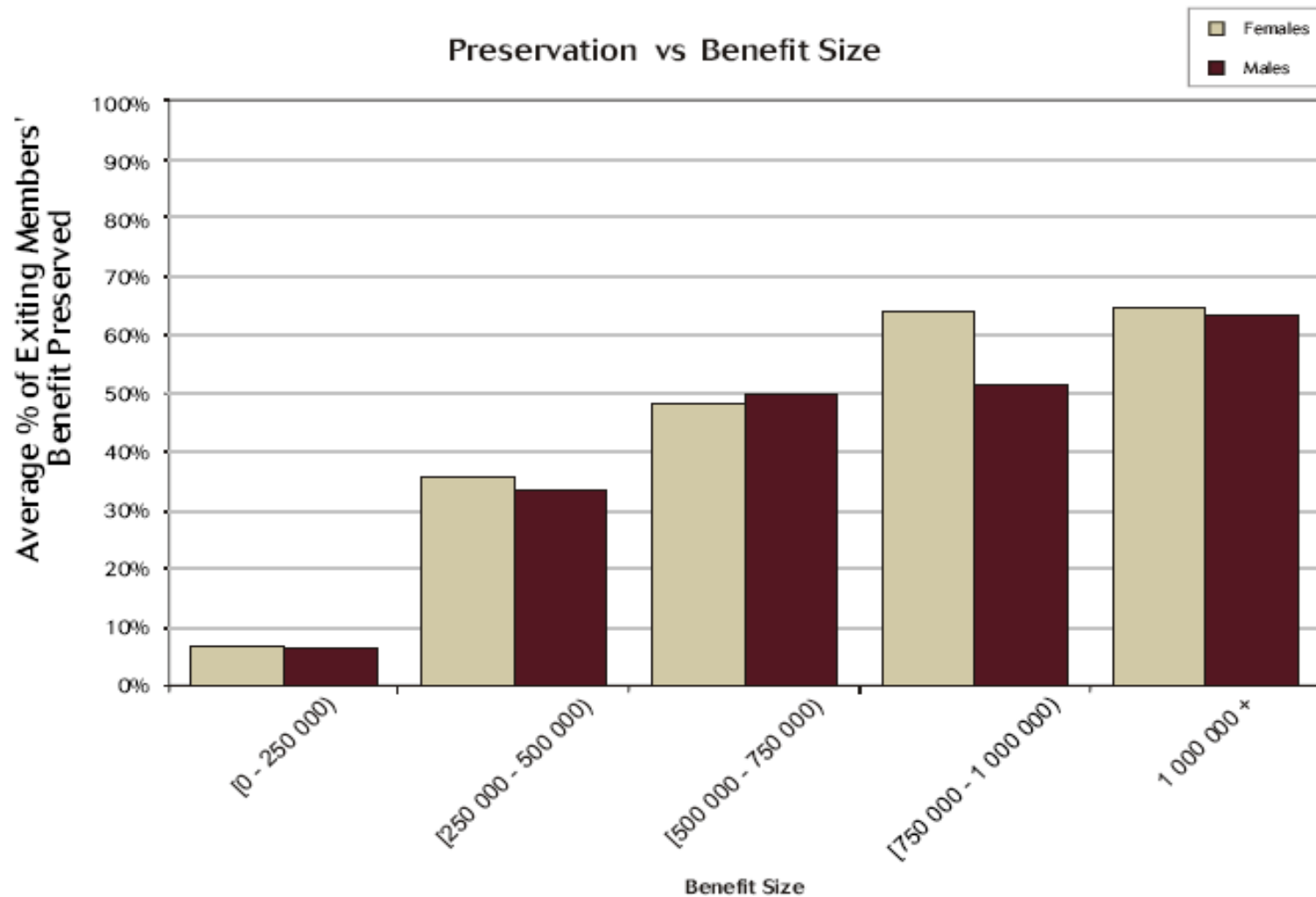
What do members do with their benefits prior to retirement (2005)?



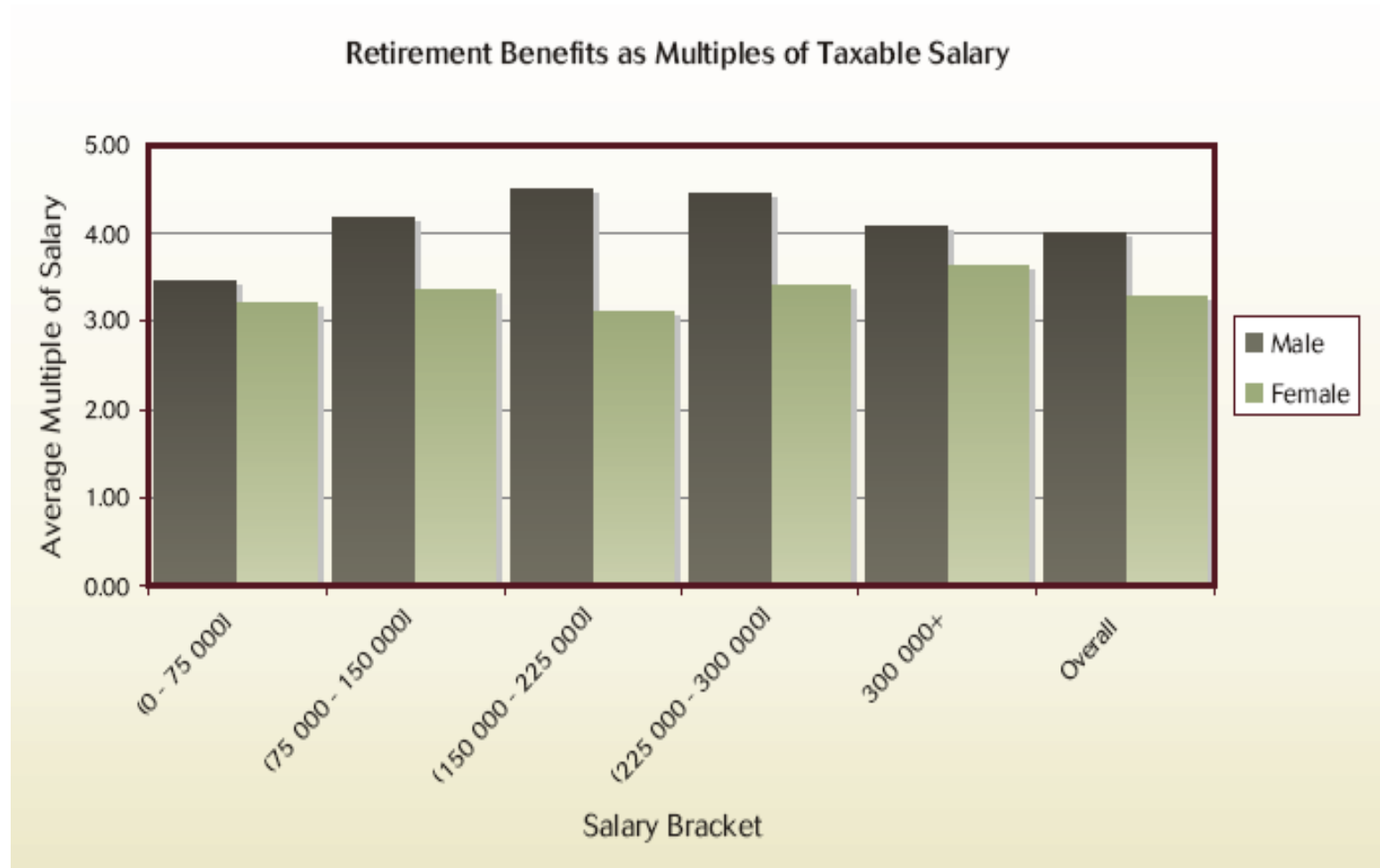
Preservation/Encashment by Age (2005)



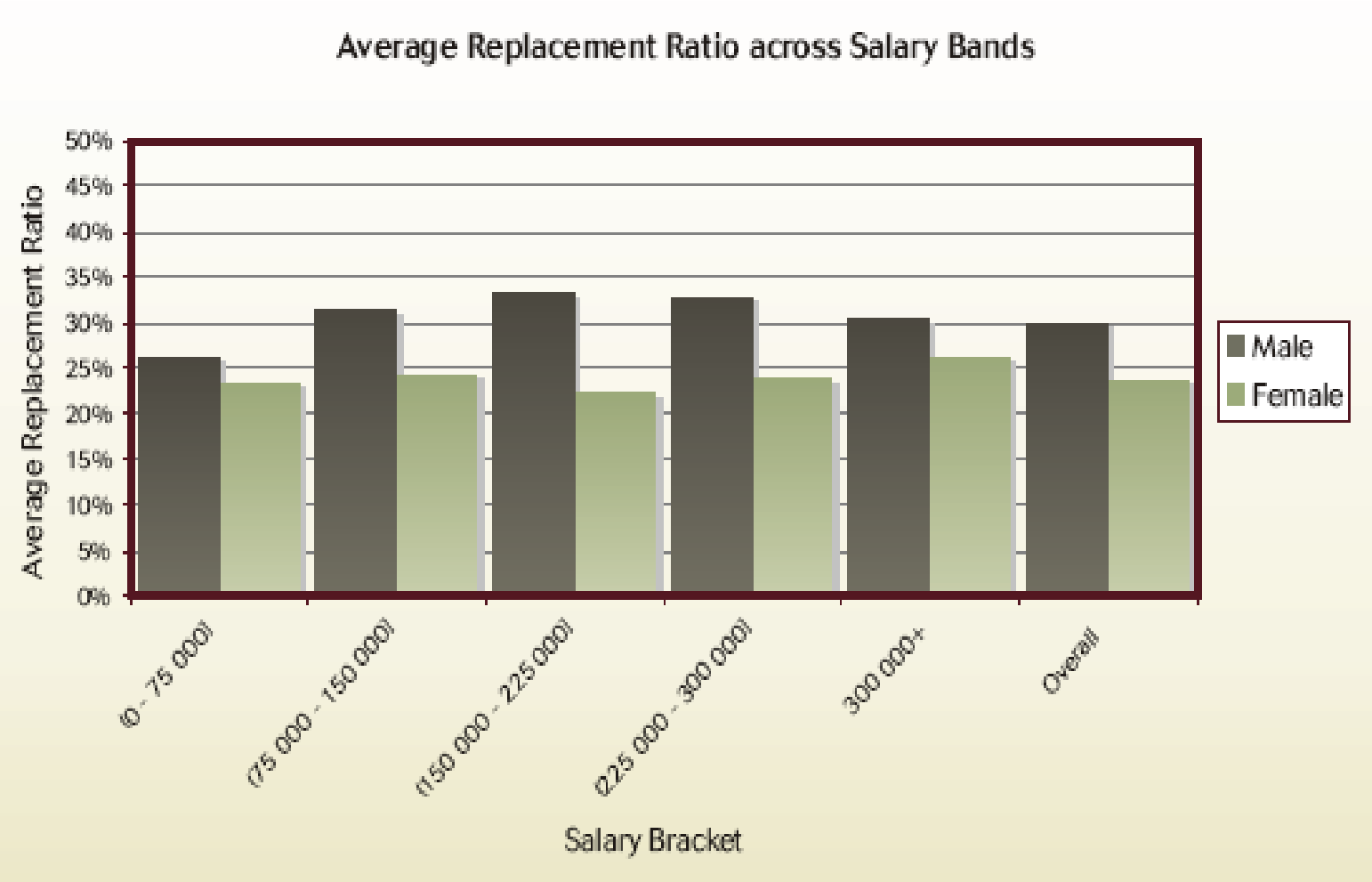
Preservation/Encashment by Benefit Size (2005)



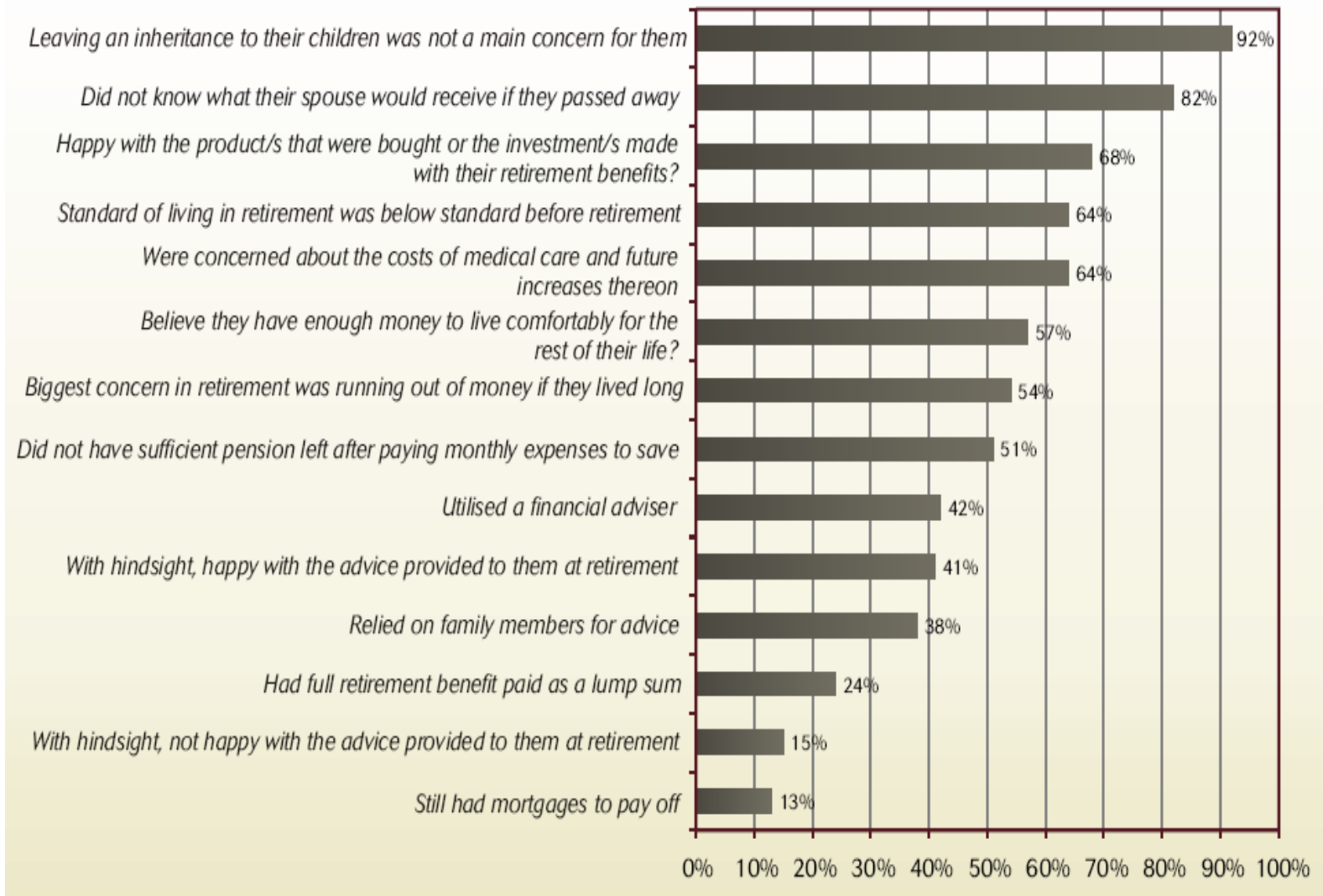
So what is the plight of retirees?



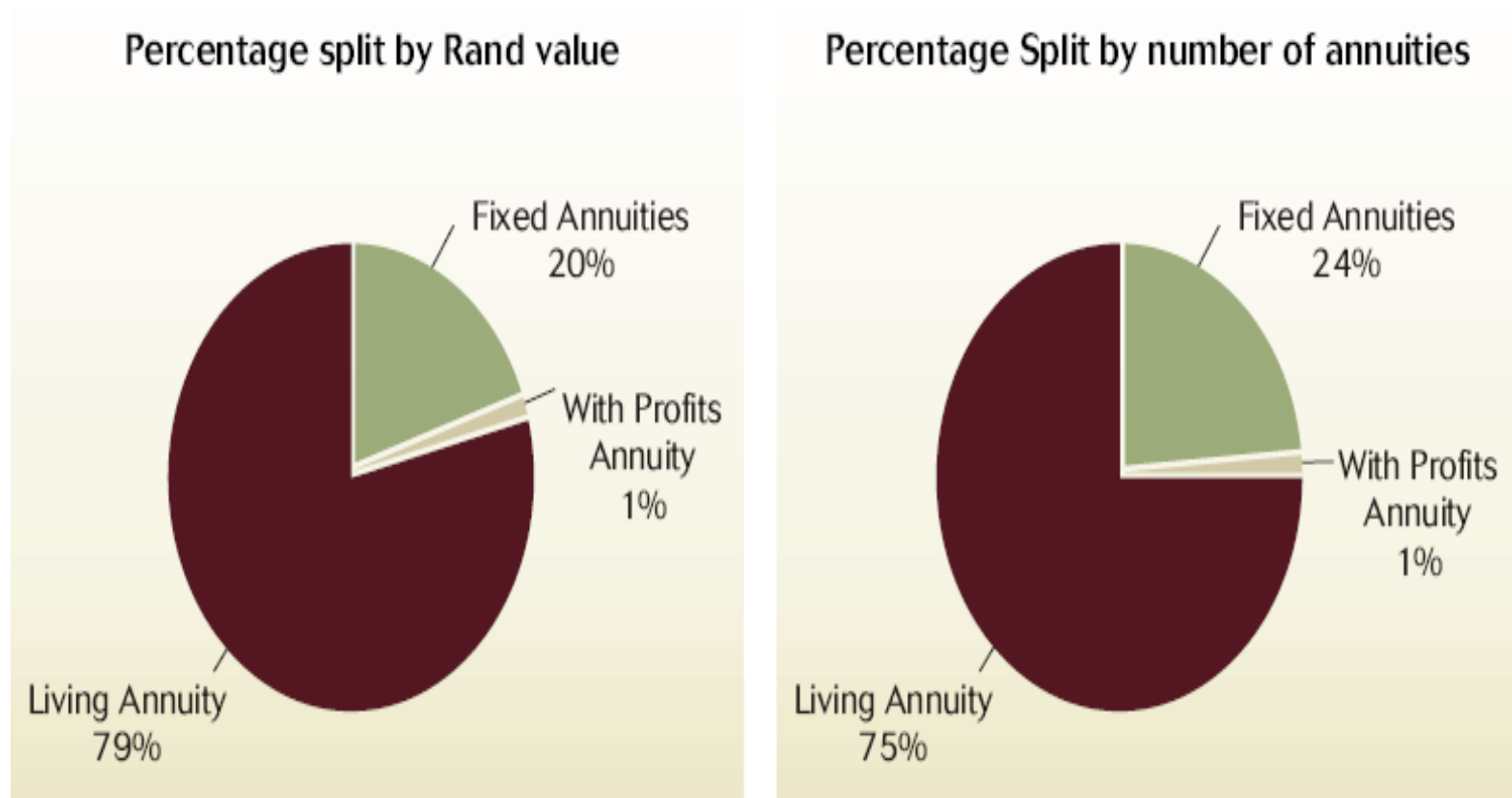
Average NRR across the Salary Bands



What are retirees views?

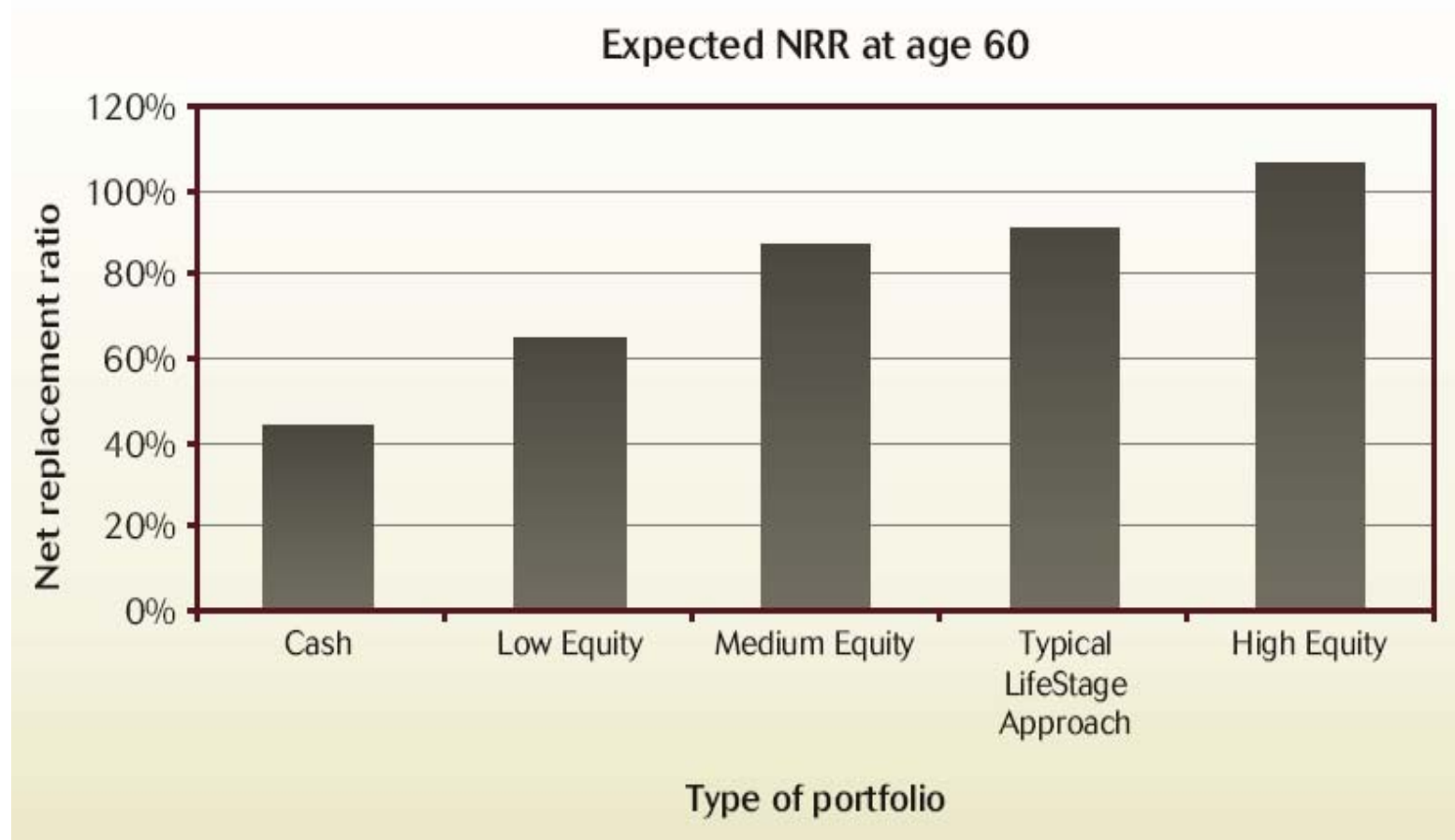


What are retirees doing at retirement?



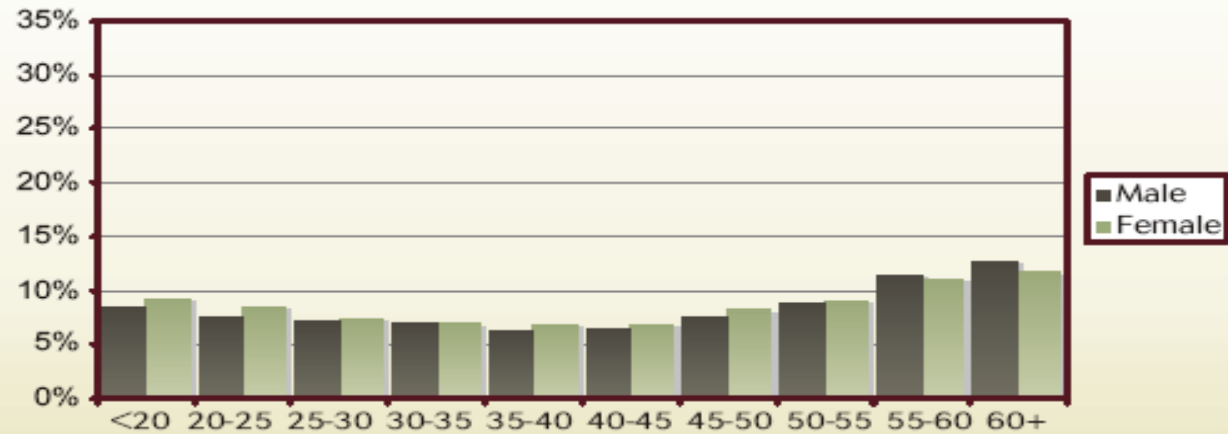
Industry stats suggest 2/3rd living annuity, 1/3rd life annuities

How are members coping with investment choice?

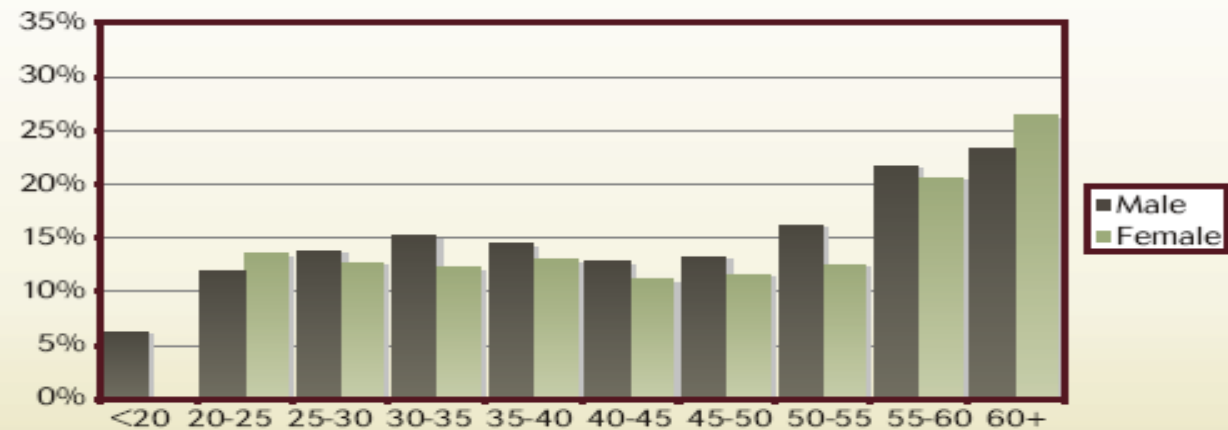


Members' use of investment choice

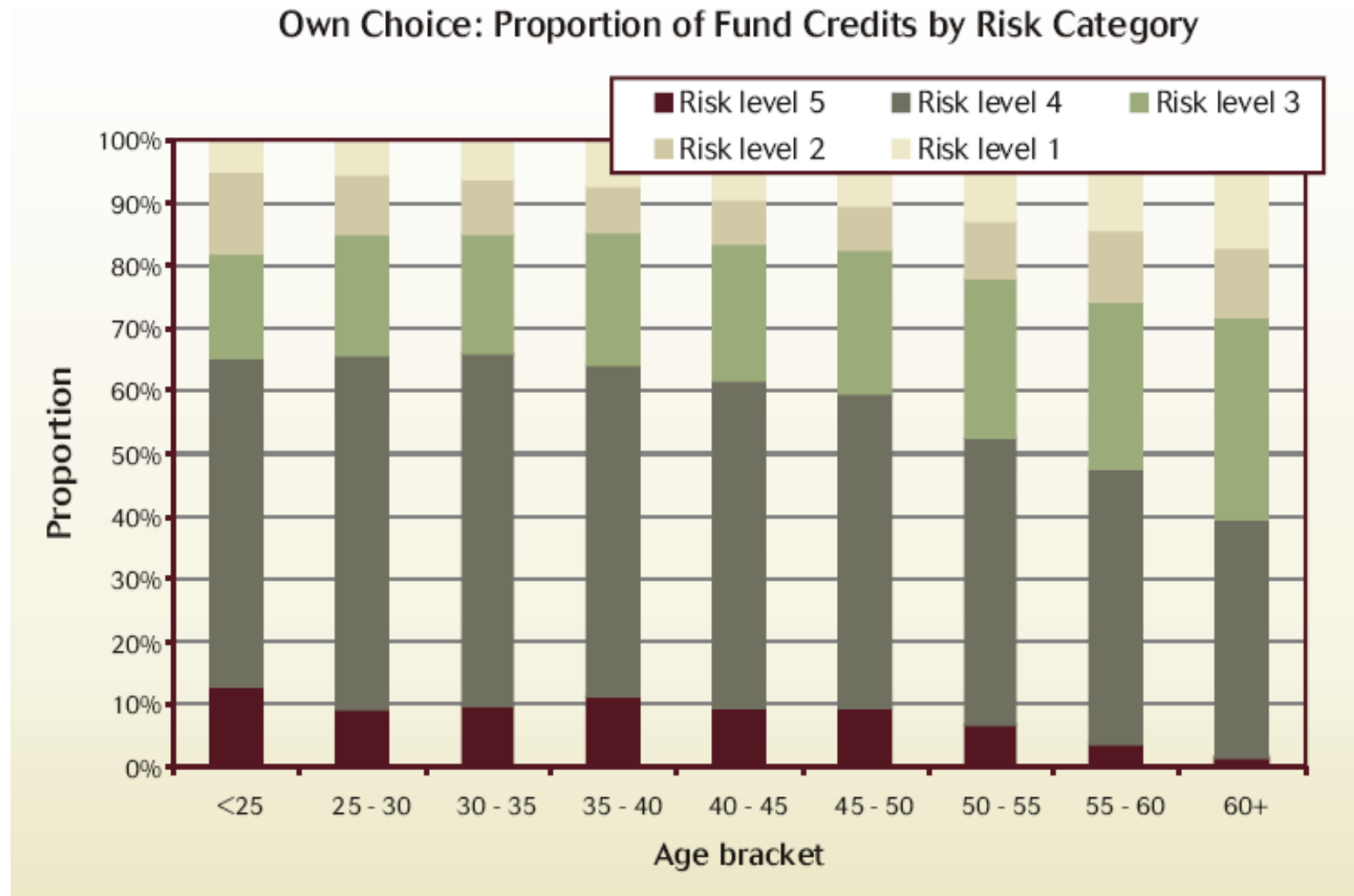
Proportion of members exercising own choice within MIC funds
Salary 0 to 225 000



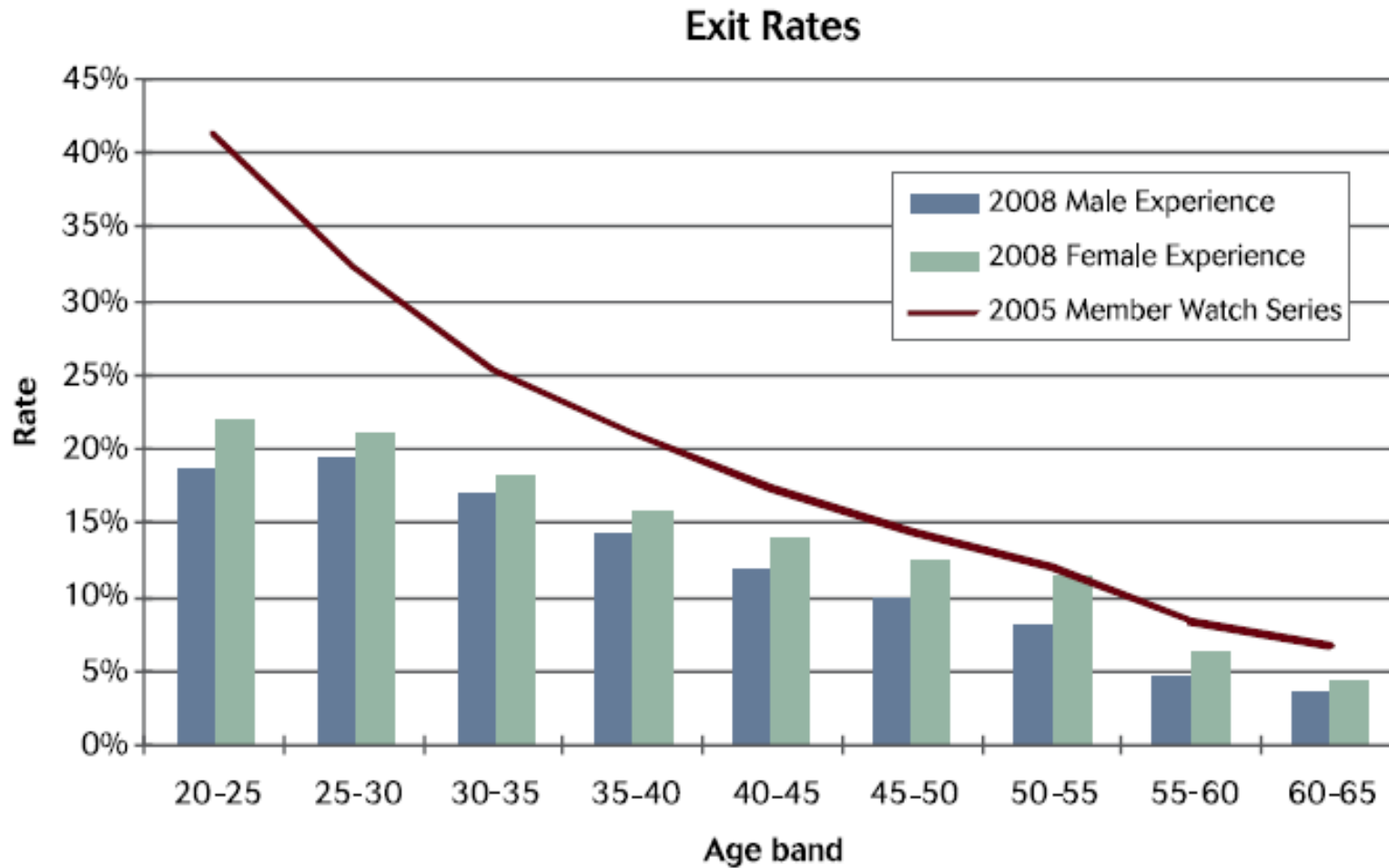
Proportion of members exercising own choice within MIC funds
Salary 225 000+



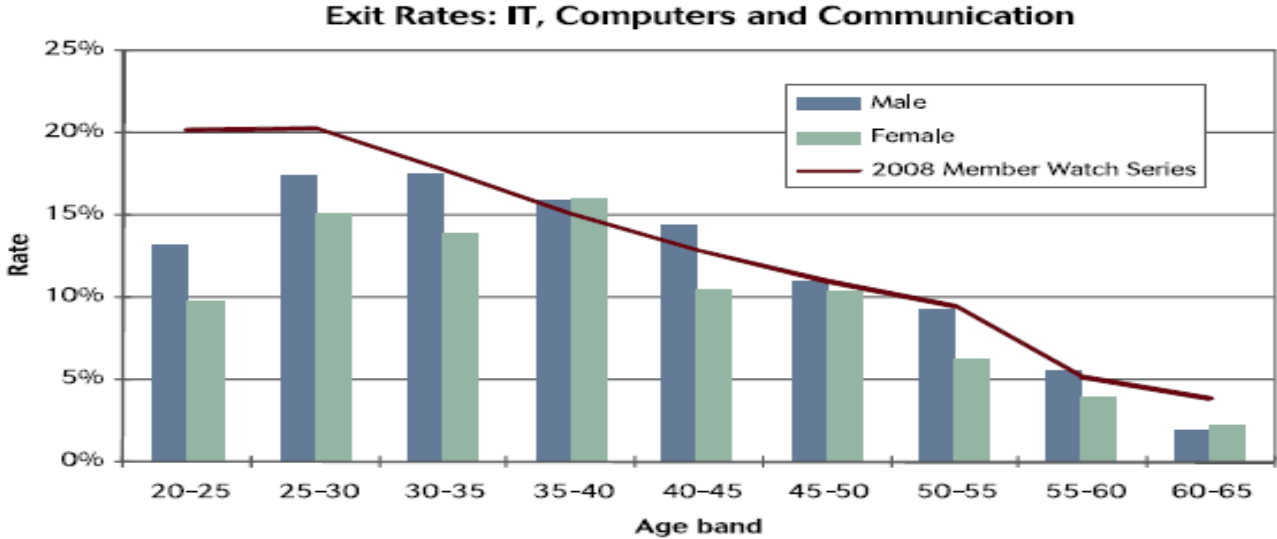
Strategies opted for when making own choices



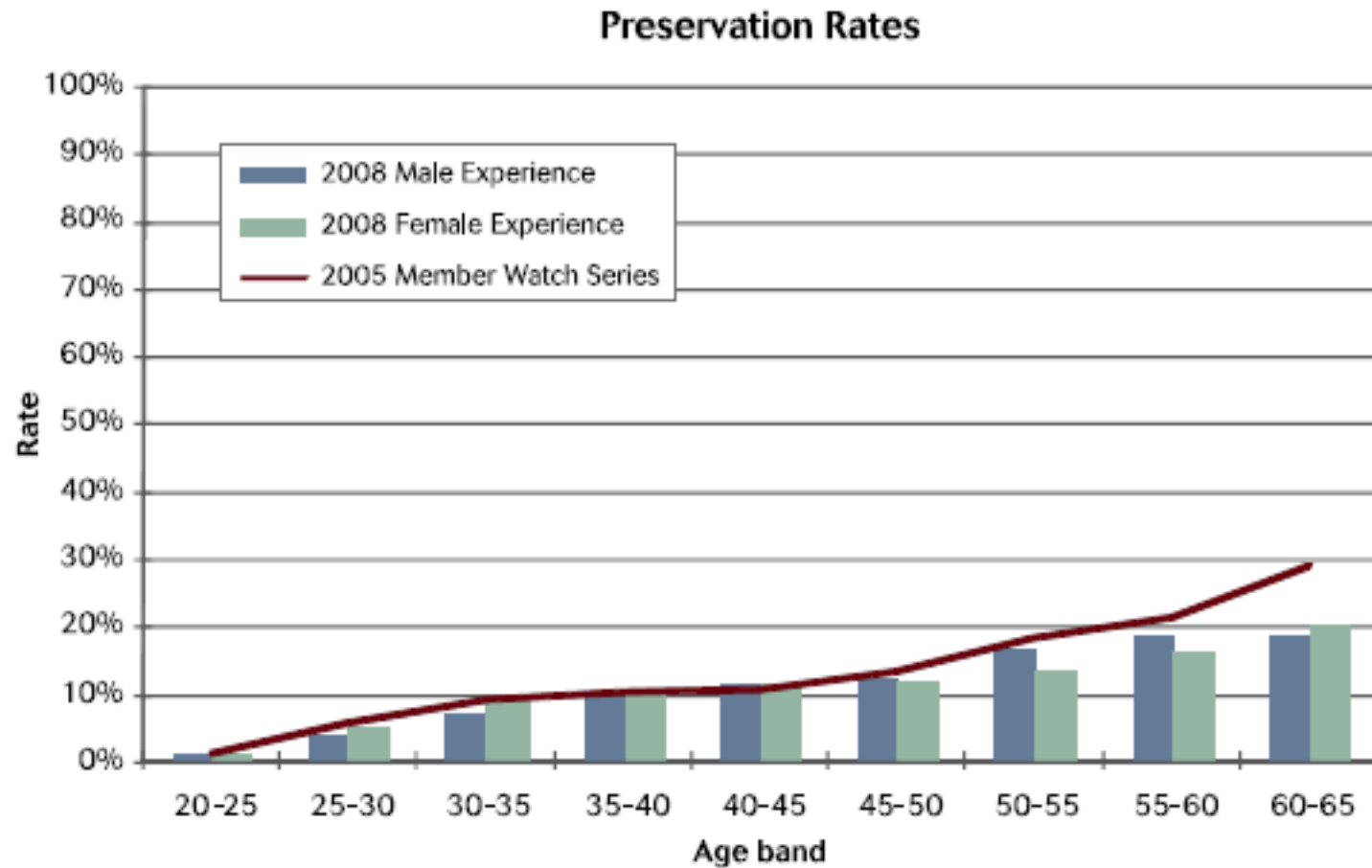
How did members behave in 2008 & in comparison to our previous survey?



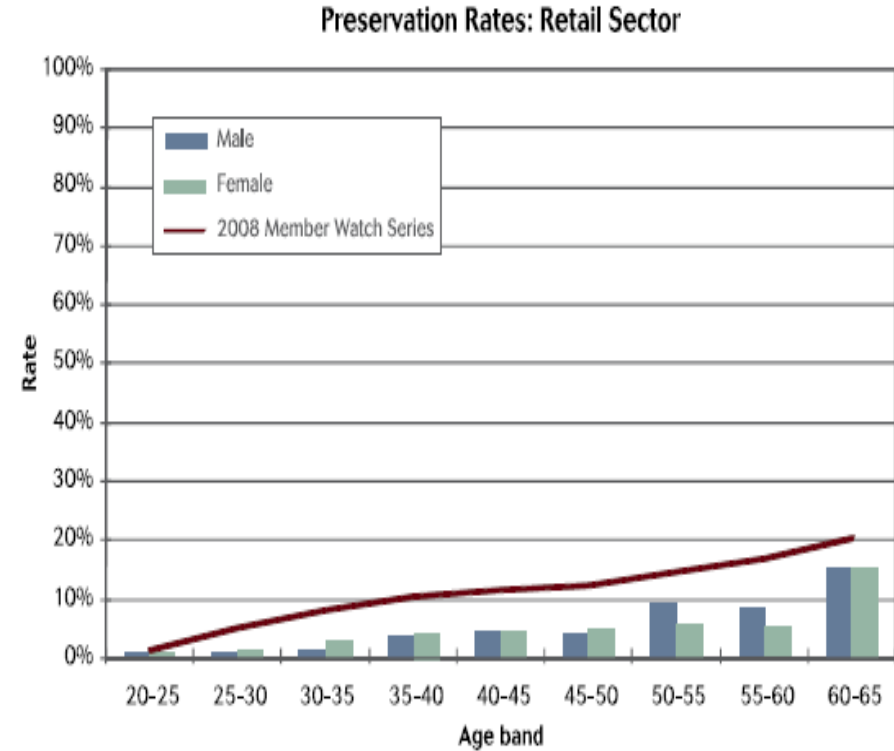
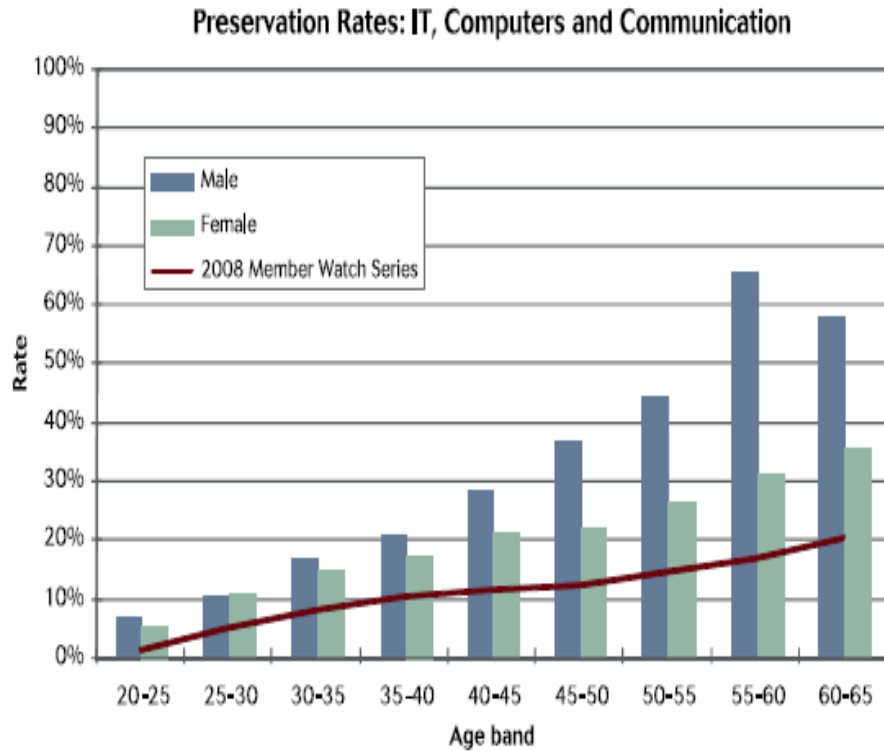
Exit Rates by Sector



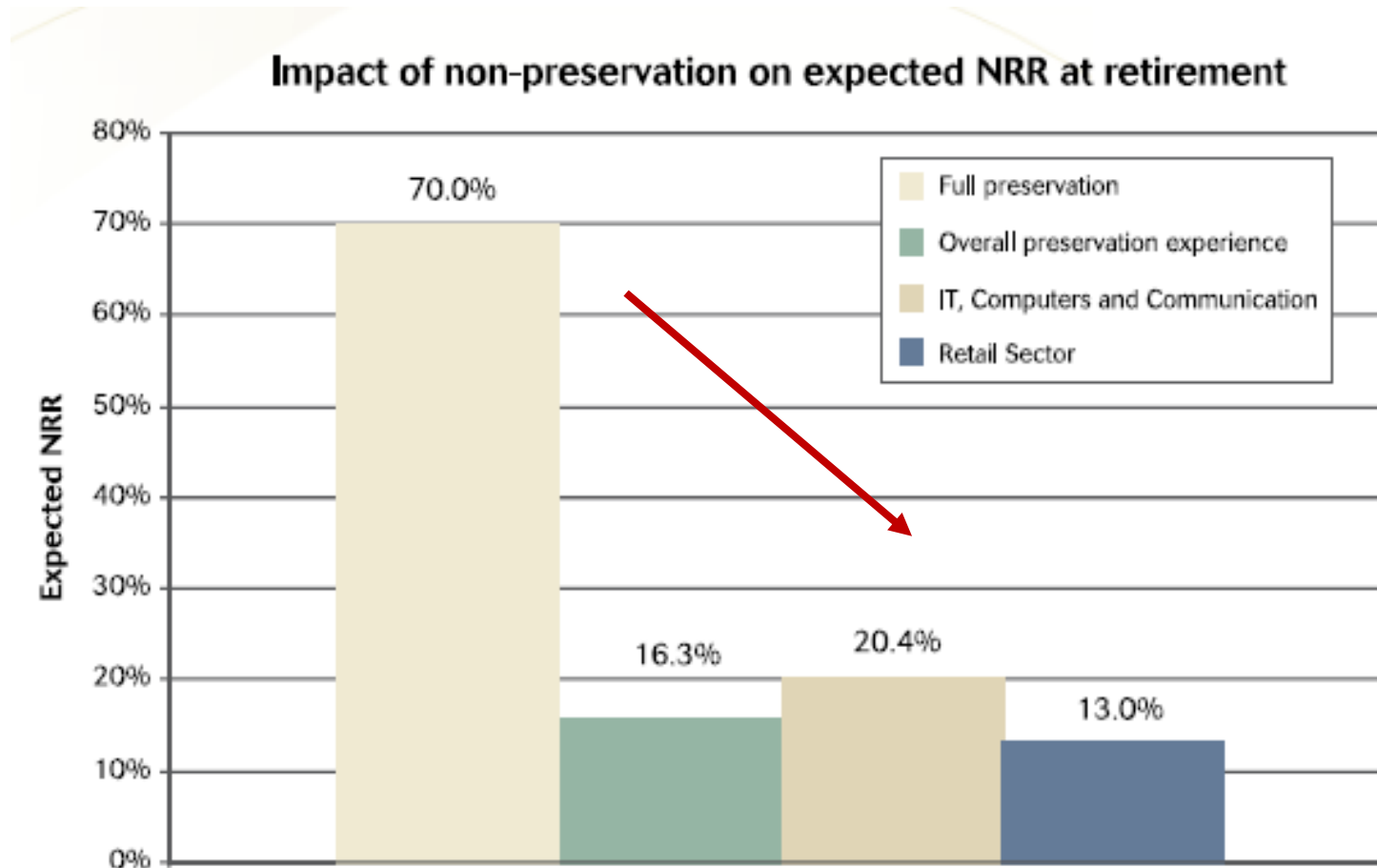
Did members preserve more?



Preservation rates by Sector

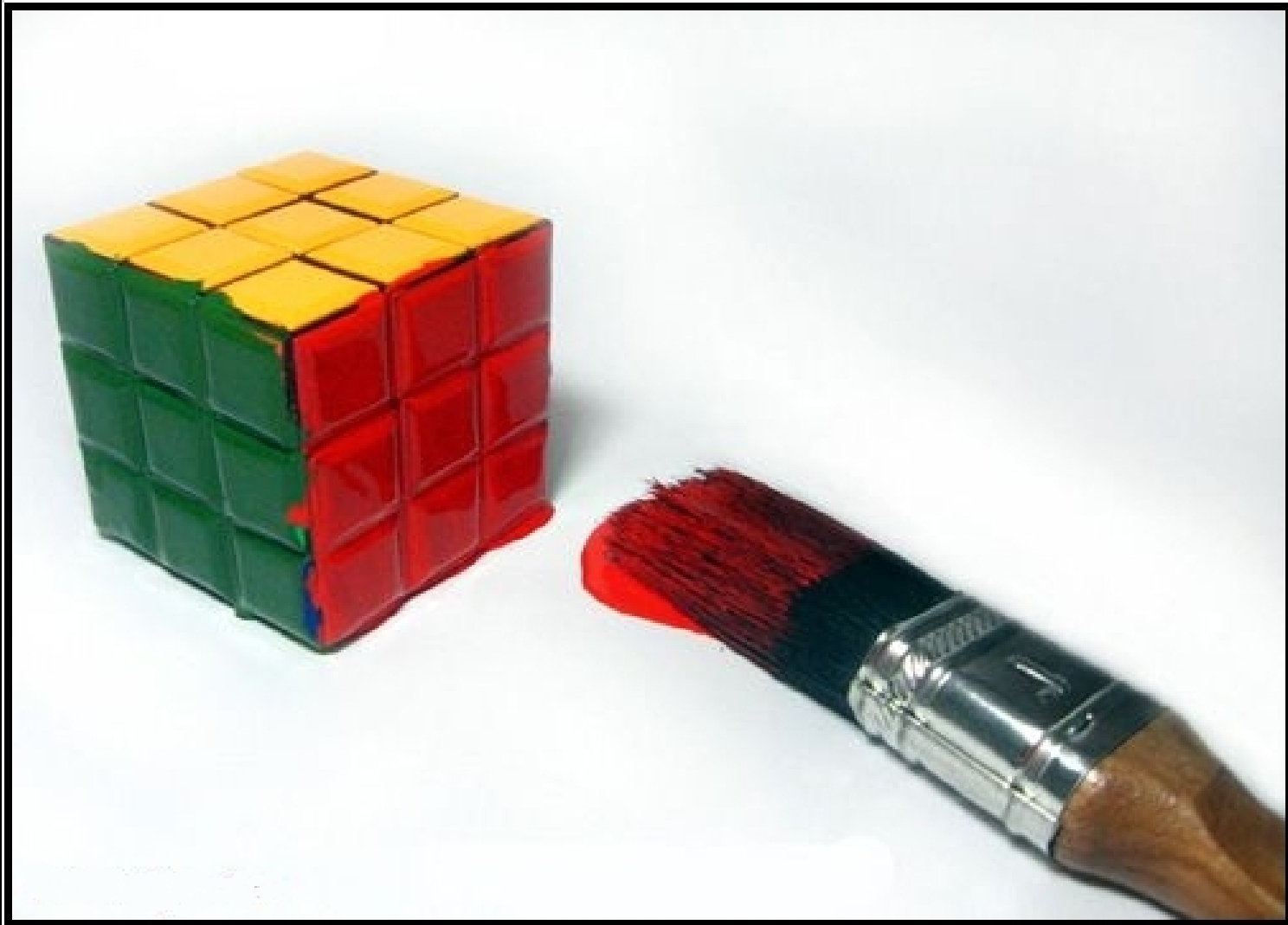


Impact of non-preservation on NRR



The South African Experience

- **Non-preservation a major issue**
 - *Need all stakeholders to put strategies in place to increase preservation*
 - *Should be major focus within retirement reform*
 - *Need access to retirement savings under certain conditions*
- **Integration of pre- and post-retirement investment strategies key**
- **Member education, support and platforms for advice key under DC environment**
 - *Challenge under current system*
 - *Even more so when informal sector incorporated*



There are solutions:
even to the hardest problems

Concluding remarks

- **In order for an EB programme and retirement reform to be successful**
 - **Should focus on the key objectives**
 - **Ensuring measurement of member behaviour taken into account**
 - **Identify key areas of concern using appropriate statistics**
 - **Develop strategies to address these areas of concern**
 - **Measure and monitor the progress of the strategies implemented**

Goal is to improve members' financial wellness in a holistic manner via employer / trustee / member partnerships