Fine-tuning the employee benefits system

The way forward to improving employee benefit engagement

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Authors and contributers

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With the sheer volume of financial challenges facing them, most people pay little attention to their retirement until they arrive at the destination. Instead of trying to sleepwalk them there, we need to engage with their entire journey and all the threats along the way. This means improving the employee benefits structure, but also helping individuals to improve their own financial decision making.

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Twenty-year-olds are not interested in retirement issues. Thirty-year-olds are not interested in retirement issues. Fortyyear- olds are not interested in retirement issues. By 55, many individuals are starting to move into panic mode about retirement issues. And by 60, it's too late. Game over.

The great challenge for retirement funds is that for the bulk of their working life, the average person has little interest in taking on the complex task of thinking through their retirement funding dilemma. As long as we're employed and earning an income, we give little thought to just how long we will be able to maintain that earnings potential in our lives. With many families financially stretched to beyond their earnings power, most people can't even think about saving for retirement because they're too busy figuring out how to hang on until the next pay cheque.

What is uppermost in their minds – and this is true for families in all income brackets – is how to solve that constant financial conundrum: finding the right balance between meeting their consumption needs of today, building the appropriate cushions to cope with financial shocks in the future (inclusive of retirement), and somehow managing to improve their standard of living.

A suitcase for the journey

Sendil Mullainathan and Eldar Shafir, in their book Scarcity – Why having too little means so much, use the particularly appropriate image of a suitcase that we carry along on this financial journey. That suitcase must hold our daily consumption needs, our housing, our medical care and whatever buffers we can add to protect us from financial shocks during the course of that journey. Some of us are able to travel with larger suitcases than others, and some of us are forced to jam as much as we can into particularly small suitcases. But no matter what size suitcase life has dealt us, filling it for our journey demands careful thought, and it demands trade-offs for those of us who are financially stretched. What you decide to include in your packing and what you leave out will have significant implications for how you will fare on your financial journey through life.

The problem is that many South African workers or members of retirement funds have a very small suitcase. It's not about what financial services they need to buy that's important, but rather which ones they can afford to leave out and still have adequate protection for whatever life throws their way. As Robert Holzman and Steen Jorgenson pointed out in their work for the World Bank on social protection, it could be rational for individuals not to prioritise longterm issues such as retirement when there are so many short-term risks.

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Should retirement reform be about the destination? Or the journey and the destination?

National Treasury has been channelling much of its reform focus on meeting retirement fund end goals. Preservation, mandatory enrolment, annuitisation, cost reduction and casting a wider net are all ideas to maximise the quality of that retirement moment2. What members need is more simplicity, more vanilla, less costs. The perfect model here would be if we could simply 'sleepwalk' an individual to retirement. The less there is for members to think about or worry about in terms of their retirement savings, the less likely they are to abandon it.

In principle, there is nothing wrong with the concept – as long as the most critical challenge that individuals face is saving for retirement. But is that the case for most South Africans?

We believe that if we want South African workers to take their retirement plans seriously – and it's clearly in the government's interest that a significant percentage of workers do not end up back on their grant books when an income is no longer forthcoming – then it's as important to help people to maintain a stable financial journey through life as it is to secure stability at the end. That means we have to tackle the problem on two distinct fronts:

1. We need to make the current structure of employee benefits as a whole far more efficiently targeted to meet each member's needs. To do this, we need cooperation between employers, the custodians of members' interests (trustees and unions) and financial services companies to ensure the system is properly integrated to give members the best outcomes.

2. We need to be just as keen to help members maximise their own financial decision making. That means we have to develop clever ways to make the most of educational techniques at different points in a member's life, with tools to help the majority of South Africans who will never see a financial planner, to manage their own financial security.

More importantly, if we merely 'sleepwalk' an individual to retirement, we lose out on a critical opportunity to get them to engage in their financial well-being and develop the financial literacy of South Africans in general.

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It can be done!

So, how can we orchestrate a shift of focus that gives members a meaningful outcome – and at the same time address some of the gaps and disruptions that keep threatening the security of their journey?

As much as the individual is at the centre of all our thinking, we see the four main facilitating groups: the government, employers, financial services companies and the custodians of the members' interests (trustees and unions), as the primary audience for these discussions.

To start with, we need to make it easy and rewarding for each of these groups to participate. What follows is a bit of 'blue sky' thinking that we believe could dramatically change the dialogue around their roles and what they can contribute.

We've termed the next ten articles our solutions. In some cases we may discuss a new set of underlying principles; in others, a new tool that could simplify a particular problem; and in others still, we propose ideas that we think have incredible potential, but only if they exist outside the financial services industry altogether. Together they represent ways in which we believe we can nudge the current system into providing much more efficient, effective and targeted outcomes.

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We've tried to follow a natural sequence of thinking about how we could most effectively layout the journey for people and then deliver on it. This means starting where employees typically have their first interaction with a lifetime savings plan or with the concept of risk benefits; insurance products that protect their ability to earn an income.

Then, as we move on to monitoring and measuring an individual's progress on the journey, we start to grapple with the issues around financial literacy, financial education and what it will take to start getting people to understand the impact of their decisions, and then to make the right choices.

We send these thoughts out there in the hopes of getting other interested parties to join us in facilitating what we believe can be important changes in thinking. All of them stand open to comments and constructive criticism. The important point is to continue the dialogue.

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EMPLOYEE BENEFITS