

7. How much is lost to non-preservation along the member’s savings journey

Low preservation rates are one of the biggest reasons for replacement ratios being lower than the target. Regulations such as, default preservation rules that will automatically allow the retirement savings to be made paid up in the fund when a member leaves their employer and doesn’t make a payment election, have been put in place to assist with low preservation rates.

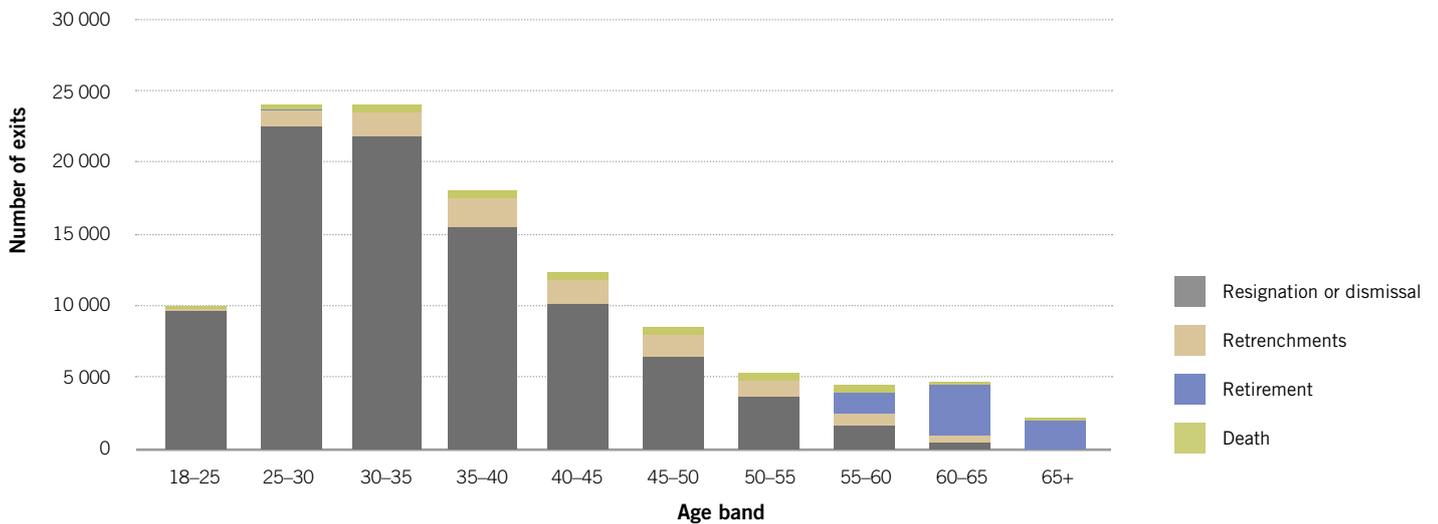
7.1 Exit rates

7.1.1 All exits

In the year to 31 March 2019, approximately 134 000 members left the funds surveyed. Of these, 103 700 were resignations, retrenchments or dismissals, 7 230 were retirements and 3 400 were deaths. The remainder exits were transfers to the new employers’ fund.

The average exit rates observed over the year-ending 31 March 2019 are summarised as follows:

Exit types FY2019



7.1.2 Resignations or dismissals by age

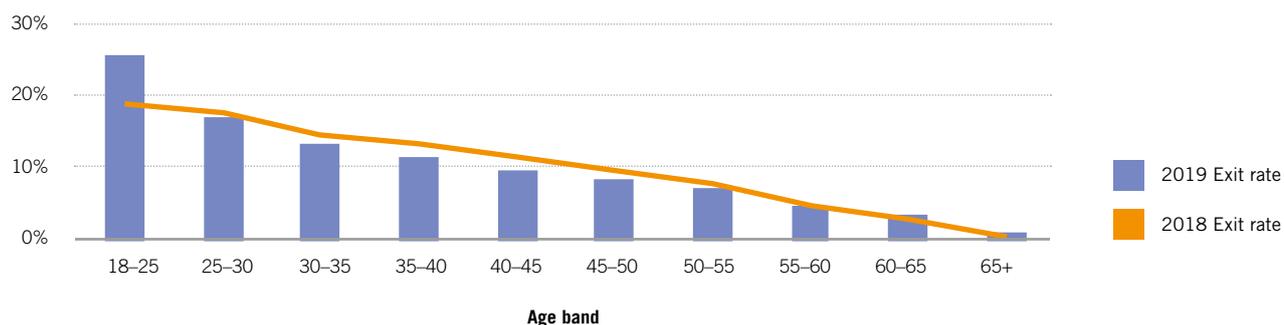
The average exit rates for the year to 31 March 2019 are shown in this graph.

Exit rates have decreased since 2018 in the number of resignations. The rate of exits declines as members get older. Most exits are between the ages of 20 to 30 years. There were similar findings in the previous analysis and general industry research.

Even after age 55, approximately 4.1% of members resigned instead of retired, which may have a significant tax implication for them. This may be as a result of pension fund members choosing to resign rather than retire to take their full benefit in cash.

The turnover observed has decreased since the previous analysis.

Exit types FY2019



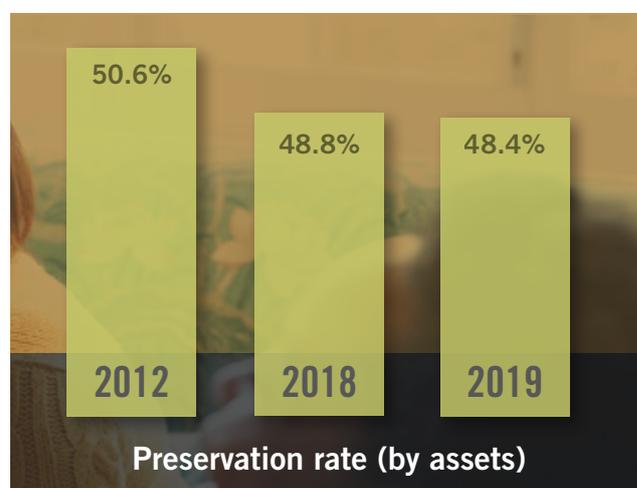
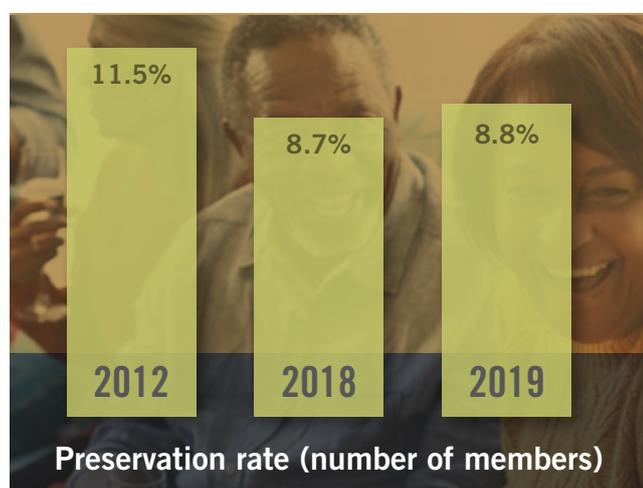
7.2 Preservation rates

This section analyses the proportion of members who preserved their withdrawal benefits (excluding transfers) rather than taking the benefits in cash.

Preservation rates are calculated for those members who resigned, were retrenched or dismissed by their employer. Preservation rates are calculated on benefits actually paid. This means that members who left before 1 April 2019 but received their benefit afterwards were not included in the calculation of the preservation rate.

Preservation rates exclude members paid in terms of a section 14 transfer, since these members did not have the option to take their benefit in cash.

The number of members preserving has decreased from 11.5% in 2012 to 8.8% in 2019. The proportion of assets preserved has also decreased from 50.6% in 2012 to 48.4% in 2019.



7.2.1 Preservation by age

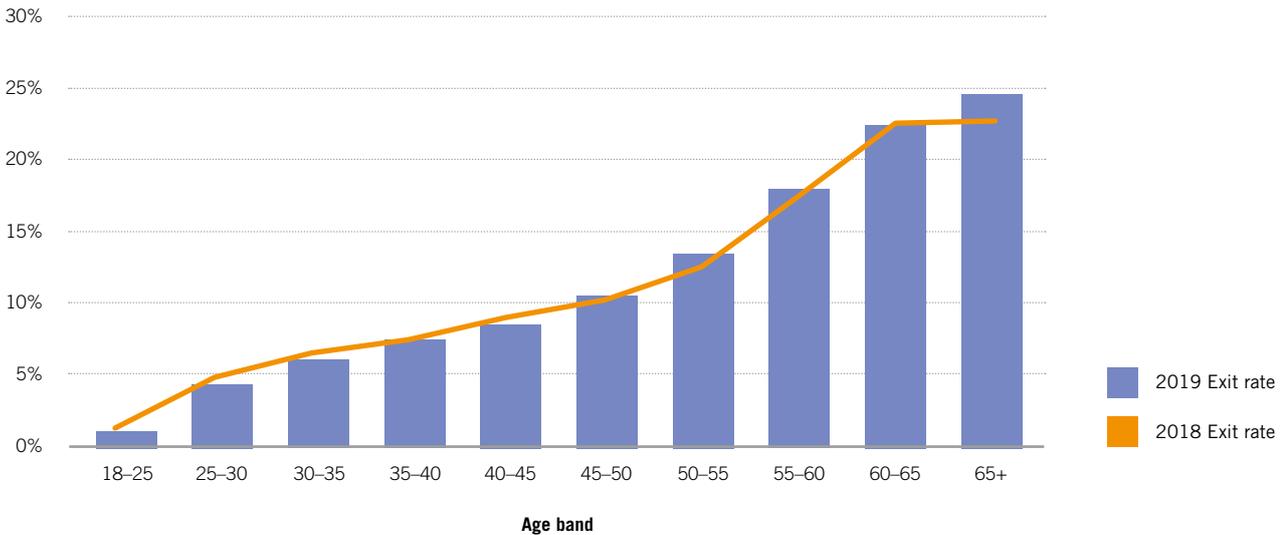
The graphs below show the preservation rate at different age groups by number of members and proportion of assets preserved.

Preservation rates increase with age. This may be due to members becoming aware of the importance of preserving their benefits until retirement.

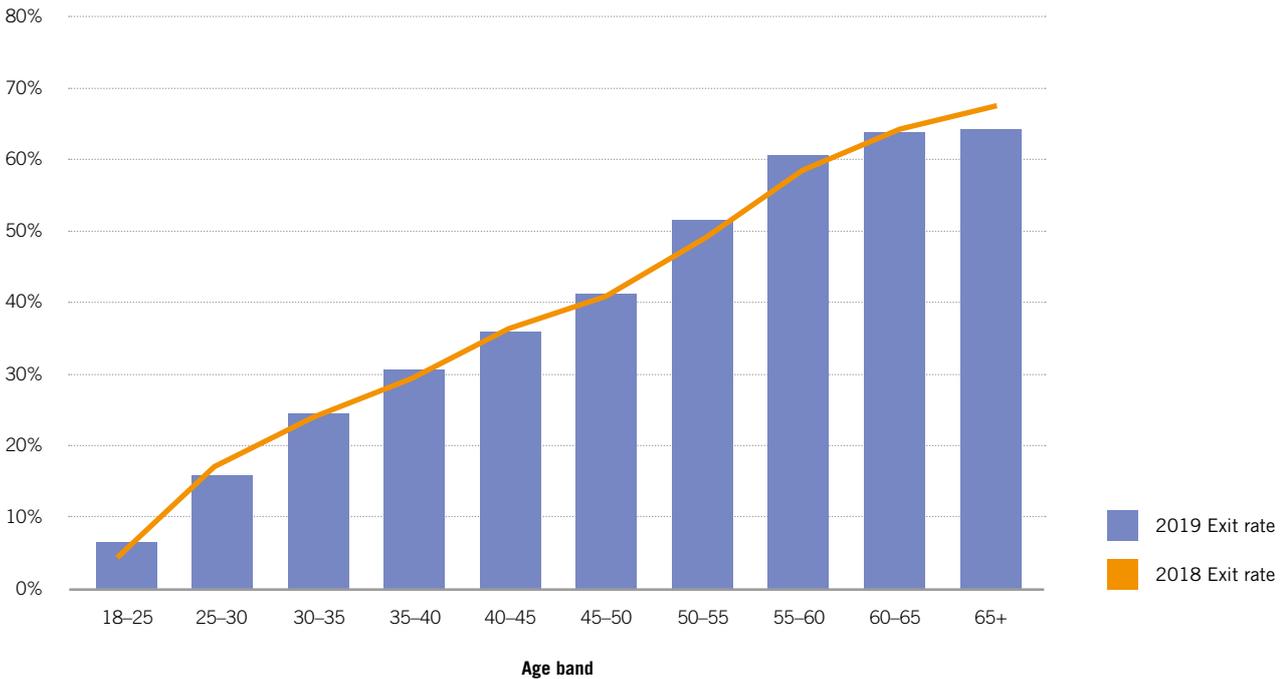
Preservation rates have decreased slightly for the members between 18 and 30 by an average of 0.4% when compared to the previous analysis. Preservation rates for members who are 65 and above has increased by 1.8%.

Low preservation rates are one of the main reasons for replacement ratios being lower than the target replacement ratio, between 75% and 100% of pensionable salary.

Preservation rate by number of members



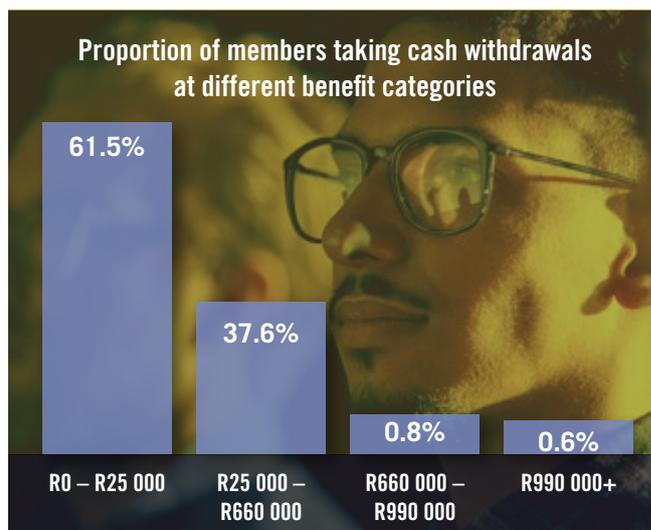
Preservation rate by assets



7.2.2 Preservation by asset size

One of the most common reasons given by members for not preserving their benefits is that their fund credit is too low to warrant the trouble and expense of a preservation fund. A total of 61% of those who chose not to preserve any of their benefits had a benefit of between R0 and R25 000.

However, the other 37% of non-preserving members had already accumulated a significant benefit but chose not to preserve. Individuals should be made aware of the longer-term impact of not preserving even relatively modest amounts at younger ages because of the power of compounding.



Benefit category	Tax rate
R0 – R25 000	0%
R25 000 – R660 000	18% of taxable income above R25 000
R660 000 – R990 000	R114 300+ 27% of taxable income above R660 000
R990 000+	R203 400+ 36% of taxable income above R990 000

7.2.3 Tax paid on benefit payments

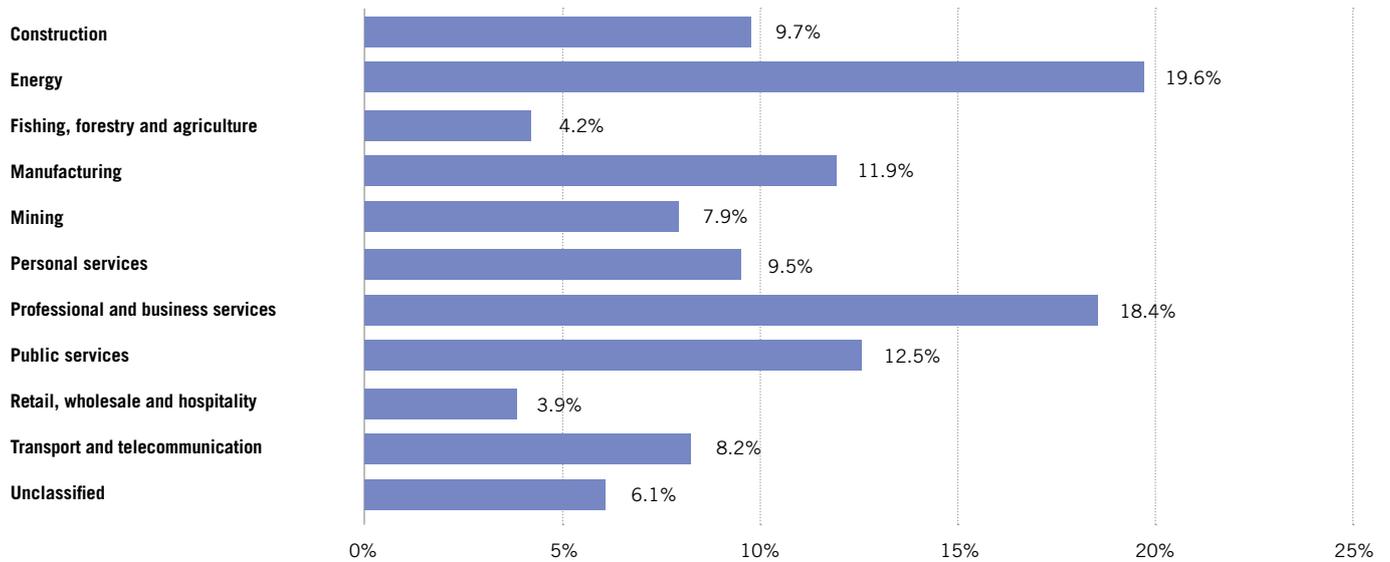
This table summarises the amount of tax payable when members withdraw their retirement savings before retirement.



7.2.4 Preservation by sector

The energy sector had the highest preservation rate in 2019 with 19.6% of members preserving. The retail, wholesale and hospitality sector had the lowest preservation rate with only 3.9% of members preserving. The energy sector had the highest proportion of fund members who had access to financial advice.

Preservation rate



Predictive analytics tools used on the Member Watch data have identified five key factors that affect the level of preservation.

These factors are:



Size of the fund credit

The higher the fund credit at exit, the higher the probability of the member preserving their retirement savings. This affects the amount of tax that will be paid, which acts as a disincentive for members to take their benefit in cash. Fund credit size is also correlated to the length of pensionable service and salary. Other factors include the monthly pension that members can buy with the retirement lump sum. If members feel that the monthly pension they can buy at retirement is too low, they are more likely not to preserve.



Industry sector

Some industries have a higher average preservation rate than other sectors. Industries with high turnover rates and very high resignations tend to have very low preservation rates. The level of financial literacy within the industry is also a factor.

For example, in the retail sector where people change jobs more frequently and there are more contract workers, the members are more likely to take their benefit in cash.



Exit type

The exit type also has an impact of the likelihood of preservation. The data shows that the highest rates of non-preservation are on resignation and early retirement. The reason for the exit is also often correlated with the member's financial situation. Members without emergency savings or who are highly indebted are more likely to take their retirement savings in cash.



Access to financial advice

Access to financial advice has a significant impact on the level of preservation. Members who have access to financial advice have higher preservation rates.



Whether the fund offers a preservation solution

The analysis shows that when members can preserve in a fund-supported preservation solution that is easy to access and institutionally priced, the preservation rate is higher.



7.3 Recommendations

The default regulations aim to improve outcomes for members by ensuring they get good value for their savings and retire comfortably. The regulations require funds to implement:

- default investment portfolios
- default preservation rules
- an annuity strategy
- retirement benefits counselling

To encourage preservation, the default regulation requires funds to offer a default in-fund preservation which allows members to leave their retirement savings in the fund when they:

- leave the employer; and
- the member does not elect how the benefit should be paid

The following interventions are recommended to assist members in decision-making:

- 1** Show members the impact of the decisions they make. The Alexander Forbes Preservation Pro tool allows members to see the long-term effect of their decisions when withdrawing. The tool shows people the benefit they forgo at retirement when they take their fund credit in cash when withdrawing from the fund. The tool also shows the additional contributions that will be needed and how much later the member will have to retire if they want to achieve the same level of income in retirement that they would have received if they had decided to preserve.

- 2** Make financial education more accessible for members through an employee assistance programme.
- 3** Availability of in-fund preservation. Exiting members now have the option of in-fund preservation.
- 4** As per regulation, retirement benefit counselling must be made available to members:
 - before their benefits are taken in cash or transferred
 - at least three months before members' normal retirement date

Preservation options are unlikely to succeed if the underlying issues that people face like reducing debt, managing monthly and unforeseen expenses and increasing their savings rate are not addressed. A financial well-being programme may be needed to achieve these objectives.

In addition to these interventions, Alexander Forbes is able to perform an analysis for an employer to identify the financial stress levels and related behaviours and their impact on payrolls.