

INSIGHT 1

How fragmentation has led to an ineffective employee support system

Let's hear from one of the original authors of our first *Benefits Barometer*: Megan Carswell, FASSA, FSA, Statistics and Actuarial Science, University of the Witwatersrand, Johannesburg.

Megan is an actuary and academic who has published widely on topics such as retirement, healthcare and ethics. Megan also helped us consider how we could better assess the effectiveness of the employee benefits system.

What we wanted the Benefits Barometer series to do was to tell a story. Because each member of a pension fund is a person. And that person has hopes and dreams and things that keep them up at night. The Benefits Barometer is about telling their story, and that story is so much more than just a replacement ratio. We started off by using the data we had about them and the choices they made to better understand what they valued, what their future might hold and risks that they faced.

We then took a step back and looked at the different ways that individuals can meet their goals and protect themselves. And we realised that this wasn't a neat menu. This was a highly complex system and it was broken.

If I were a driver for a company and I was involved in a motor vehicle accident on duty, I could claim from Compensation for Occupational Injuries and Diseases (COID), the Road Accident Fund, my union's disability income product, the Unemployment Insurance Fund (UIF), sick leave from my employer, a hospital cash plan that I bought through my church and the medical aid that employer forces me to join.

But, let's paint a different picture. I have a child who I want to make sure gets a good education because I expect them to take care of me in my old age. Here I am on my own.

I have schooling provided by the state and I could get an education policy but my options are very limited, particularly as I have to save for retirement and pay a mortgage at the same time.

So, there are also holes in this rather bewildering system as well as a huge amount of duplication.

Apart from the fragmentation in the system, we were also aware that the individual faced issues that stood between them and a system that worked for them.

We looked at things like:

- *our retirement ages, which are 150 years out of date*
- *incentives to save that simply don't work*

But the more we looked at it, the more we realised there was a bigger problem: a complete disconnect between what the members wanted from life and what the retirement benefit system was giving them. They were making choices that made sense in terms of their lives as a whole but which didn't make sense if we considered only their retirement funding. We understood that unless we could understand that person's story and started to address what the individual really wanted, we were never going to get compulsory retirement savings to succeed.



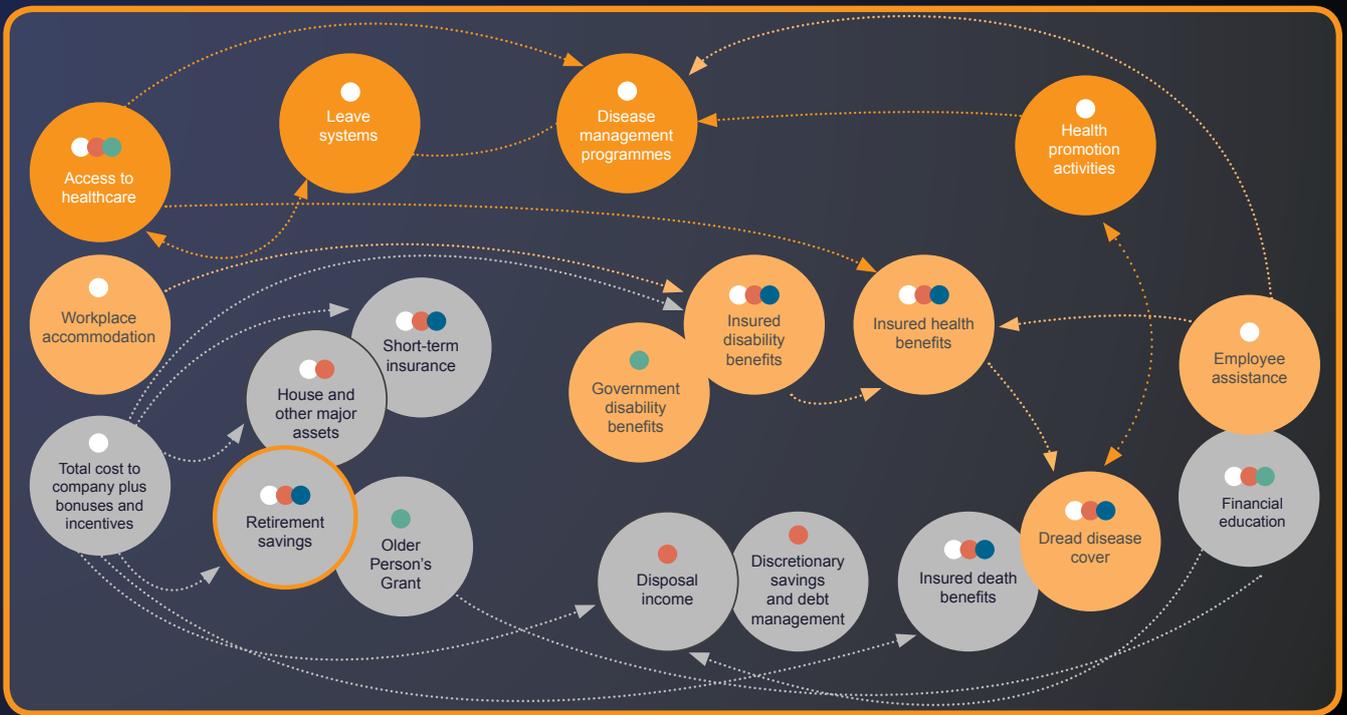
Watch Megan's video.

For more on the fragmented employee benefits system:

CLICK HERE

HOW DID IT GET SO COMPLICATED?

Connecting the stakeholders, benefits and objectives in the employee benefit system



The employee benefit system

Employee
 Household
 Government
 Unions

WHAT ISSUES STOOD IN THE WAY OF EFFECTIVE EMPLOYEE BENEFIT STRUCTURES?

PERCEPTION

Unhealthy finances don't affect productivity.

Low-income earners don't need to save for retirement.

Absenteeism and incapacity are infrequent and unmanageable things.

Incentives encourage people to save.

Temporary and informal workers don't need benefits.

Choice means better-tailored benefits.

Bricks and books are within reach of all South Africans.

Strikes are about take-home pay.

Young workers want the same things as older workers.

Pensionable pay is just a tax issue.

High salary inflation is a good thing for workers.

Mass exits happen to others.

Longevity means a longer retirement.

REALITY

- Many employees focus on their financial troubles while at work.
- It's sometimes hard to tell who should save.
- Abuse of sick leave can be managed and some disability claims can be managed or prevented.
- People might not change their behaviour if they don't understand the incentive.
- Many people may need benefits but this need is not being met.
- People may not choose what is best for their long-term financial well-being.
- Many people need their employer's help to access housing and education.
- Employees lose benefits coverage while on strike.
- They view benefits differently.
- Pensionable pay levels have a direct impact on benefits.
- High salary inflation creates shortfalls in retirement savings.
- Mass exits are common and have big benefit implications.
- Employees may be retiring too early.

For more on the issues that are impacting employee benefit engagement

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