

Conclusion

PULLING IT ALL TOGETHER

How we're defining problems, what we're learning, initial thoughts on solutions, what we still have to develop.

Problem to solve	How much do we understand? Are there gaps in our knowledge?	Solutions or tools available	Challenges to address	Benefits Barometer Issues addressed
<p>Introduction It's difficult to get people to care about retirement savings at the end of their lives when their primary concern is maintaining their financial security over the course of their lives.</p> <p>We need to start the conversation with members the minute they join a fund – not five years before they retire. Members need to feel we're by their side every step of the journey – not just when we make money from them.</p>	<p>To get people to care you need to demonstrate that a holistic employee benefits programme can address both the journey and the end goal.</p>	<p>Total rewards employment packages</p>	<p>We need to convince employers that this is a priority that will pay off for all stakeholders.</p> <p>There is a financial education component that is essential for making this work.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Choice • Bricks and books and beyond • Young workers
<p>Needs As individuals move through life they and their families have changing requirements for financial stability and security. The challenge is to develop an employee benefits framework that responds to those changes.</p>	<p>Design of risk benefits is often driven by legacy or market conventions. These designs can result in inefficient use of a member's contributions and have little reference to specific needs of members.</p>	<p>Employee benefit efficiency index</p> <p>Life cycle employee benefit programme</p>	<p>Cost containment is one challenge of an employee benefits programme that adjusts to members' evolving needs.</p>	<ul style="list-style-type: none"> • Choice • Bricks and books and beyond • Young workers

Problem to solve	How much do we understand? Are there gaps in our knowledge?	Solutions or tools available	Challenges to address	Benefits Barometer Issues addressed
<p>Targets Having a meaningful target is an essential component of the defined contribution model. But what is the right number?</p> <p>If employees constantly change jobs, replacement ratios make it difficult to keep track of where members are on their savings journey.</p> <p>Maximising a replacement ratio could inadvertently lead to a sacrifice in risk benefit coverage. This may not be desirable.</p>	<p>In truth, there is significant variability in members' income replacement requirements. These are highly dependent on where a family or individual may be in their life cycle circumstances.</p> <p>We need a framework that helps employees understand what targets and coverage would be optimal given their specific circumstances.</p>	<p>A consumption-smoothed basis of calculating a target would be a more viable option.</p> <p>Target needs to be set with a member's income and expenditure in mind.</p> <p>But the really optimal target would be one that would help individuals integrate and balance their long-term savings requirements with their income and family protection requirements.</p>	<p>The greatest challenge in establishing a meaningful target is employee mobility. We believe the time has come to promote standardised targets (in terms of their calculation methodology) across all pension funds that would enable an employee to move from one job to the next and maintain continuity in their savings and protections programmes.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Choice • Bricks and books and beyond • Low-income earners and incentives • Young workers • Pensionable pay • Variability in salary inflation
<p>Defaults Where can we employ 'default' solutions effectively and where not?</p> <p>Can we make defaults 'smarter'?</p> <p>The great debate is between default models that simply 'sleepwalk' a member to retirement and those that engage the member to become more actively involved in making better decisions about both their savings and their journey.</p> <p>If we want to empower members to have a deeper understanding of their finances we need to promote engagement.</p>	<p>Auto-enrolment, default investments and default contribution rates work.</p> <p>Auto-escalation and adjusting risk benefits through the life cycle might work, but needs some engagement.</p> <p>Defaults can be detrimental where we require more specific information about an individual to meaningfully add value. Default annuities might be a case in point.</p>	<p>Smart defaults create a framework that allows for the introduction of enough additional member information for defaults to provide more tailored answers.</p> <p>Areas where these could be employed are in investment defaults that provide automatic optimal solutions for every fund member based on their current fund credit and the date they intend to stop working; and potentially with an annuitisation decision.</p>	<p>Auto-escalation deserves further investigation, but high employee turnover and South Africa's relatively high inflation present obstacles.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Choices • Young workers

Problem to solve	How much do we understand? Are there gaps in our knowledge?	Solutions or tools available	Challenges to address	Benefits Barometer Issues addressed
<p>Gaps In Benefits Barometer 2013 we identified that the greatest factor contributing to poor employee benefit outcomes was the lack of an integrated discussion between stakeholders.</p> <p>How do we ensure employers' HR policies and their employee benefits mesh?</p> <p>How can we eliminate overlaps?</p>	<p>Closing these gaps is critical for all companies, but no one seems to be taking accountability for this.</p>	<p>Every fund should undertake an assessment every three years that would look at the link between HR policies and employee benefit structures.</p> <p>Such assessments could identify which gaps need to be closed and how it can be done cost-effectively.</p>	<p>Could there be similar gaps between what unions propose for their members and what the employers have on offer? This is another hugely important area for analysis.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Absenteeism and presenteeism • Incapacity • Low-income earners and incentives • Strikes • Pensionable pay • Mass exits
<p>Costs In the complex value chain of services that support the delivery of benefits to members, there is little understanding about which services have the most direct impact on outcomes for members and whether the fees charged for each entity in that value chain can be justified.</p> <p>Similarly, different pricing models affect members differently according to the size of their income, contributions, fund credit, membership numbers and such. We need a framework for understanding these dynamics.</p>	<p>We need a model that ensures a comprehensive delivery of those services that will make the greatest difference to member outcomes. That said, over the 40 years that a member is exposed to their fund, it makes no sense to pay high fees to chase performance potential that gets diversified away.</p>	<p>We propose a two-pronged approach that introduces the concept of the über-consultant who is accountable for integrating all the components that support member outcomes and the über-asset manager who provides a low cost, risk-budgeted portfolio exclusively to a compulsory savings vehicle.</p> <p>Additionally we propose a tool that allows trustees to assess the impact of different pricing models on their members.</p>	<p>Convincing an entrenched industry that this model will be a boon to creating a more robust industry that is open to more diverse players will be the ultimate challenge.</p>	<ul style="list-style-type: none"> • Choices • Pensionable pay • Mass exits

Problem to solve	How much do we understand? Are there gaps in our knowledge?	Solutions or tools available	Challenges to address	Benefits Barometer Issues addressed
<p>Health complexity Increasing medical costs have resulted in increasingly complex medical schemes.</p> <p>How do we help individuals navigate this complexity without burdening them with even greater costs.</p>	<p>Annual communication to members about their medical benefit usage provides a useful feedback mechanism for members who need to know if they are in the right scheme. But this is just a starting point.</p>	<p>Technology presents one way for plan members to get on-the-spot information on their extent of coverage and their optimal options when cost is an issue. Tools that can help members with decisions around medical specialist options, treatment options and clarity of coverage would be invaluable.</p>	<p>We need to measure how effective our communications to members are in getting members to make better decisions about their optimal scheme choices.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Choice • Young workers
<p>Communication Effective communication with members is hampered by a greater focus on fulfilling regulatory reporting requirements than on understanding what individuals respond to and how they process information.</p> <p>The challenge is to create frameworks that simplify the whole decision-making process and communicate complex ideas about the future in terms that members can understand today.</p>	<p>Visual learning is the way most people process information. As such we need to focus more on how we represent ideas visually that does not introduce unintended biases.</p> <p>Most people tend to simply 'turn off' rather than have to confront complex choices.</p>	<p>A simplified decision-making framework for making investment choices.</p> <p>Benefit illustration and projection statements that correctly position and frame the information that requires decision making – and doesn't complicate the process with information that doesn't.</p>	<p>We need to start measuring whether our more targeted communication programmes are actually changing the way members make decisions.</p>	<ul style="list-style-type: none"> • Choice • Young workers

Problem to solve	How much do we understand? Are there gaps in our knowledge?	Solutions or tools available	Challenges to address	Benefits Barometer Issues addressed
<p>Financial education Financial education is failing globally in terms of getting better decisions from members about their financial well-being.</p> <p>How can we develop more targeted programmes that reflect different levels of needs or receptiveness to help? How can we determine whether these programmes are actually working or adding value to the lives of individuals and their employers?</p>	<p>Financial education is less about knowing what fundamentals to teach and more about understanding the behavioural dynamics that make people receptive to teaching.</p> <p>Work in the area of addictions management is providing some interesting approaches here.</p>	<p>Tools to assess how stressed individuals are, how ready they are for change and the potential return on addressing the issue.</p> <p>Frameworks for measuring success, based on behavioural change.</p> <p>Methods for addressing chronic debt, from work with addicts.</p>	<p>The main failure in financial education is properly measuring whether an idea actually works. We haven't had an opportunity to test our ideas, but we have been working with ideas that have been tested elsewhere.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Low-income earners and incentives • Choice • Strikes • Mass exits • Pensionable pay • Variability in salary inflation • Young workers • Longevity
<p>Measuring Success How do we know if our work as fiduciaries delivers the right outcomes to members?</p> <ul style="list-style-type: none"> • Is the solution effectively structured to deliver the outcomes? • Are members responding appropriately? • How do we know if our medical scheme options are optimal? 	<p>We measure all sorts of things in this industry, but often fail to assess the outcomes for members. Member behaviours often hinder the best designed programmes and we need to measure the effects.</p>	<p>Tools to measure outcomes for members in terms of replacement ratios and asset-liability management.</p> <p>Tools to measure past usage of health benefits.</p>	<p>We have only just begun to develop the tools behind these concepts, but the tools are massively effective for changing the conversation that drives the decision making.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Choice • Young workers

Problem to solve	How much do we understand? Are there gaps in our knowledge?	Solutions or tools available	Challenges to address	Benefits Barometer Issues addressed
<p>The individual's journey to financial well-being How do we get individuals to engage with their financial well-being?</p> <p>More importantly, how do we do it without a financial adviser?</p> <p>We need to start the conversation with members the minute they join a retirement fund, not five years before they retire. Members need to feel we're by their side every step of the journey.</p>	<p>We've identified a number of concepts with good track records for getting individuals engaged, equipping them for decision making and evolving their self-maintenance skills set:</p> <p>Teachable moments Just-in-time-education Smart defaults Present-value representations Trade-off tools Incentives</p>	<p>What's needed most are tools and training that can empower HR departments to be more effective employee enablers.</p> <p>A tool to manage the new employee/employer total rewards pact.</p> <p>Trade-off and present value tools that allow employees to make better decisions around preservation, pensionable pay, contribution rates, portfolio choices, benefit structures, and so on.</p> <p>Ability to create individualised optimal portfolios and risk benefit structures.</p>	<p>The key to getting this right is to have a technological support resource that allows us to 'touch' the individual through multiple technologies, multiple media, and at multiple points in the course of their lives.</p> <p>Capability to upload employee contracts and benefit summaries and that can provide a continual reference point for future decisions.</p> <p>Capability to help model complex decision making around the trade-offs individuals have to consider and the long-term implications to their financial stability.</p>	<ul style="list-style-type: none"> • Unhealthy finances • Low-income earners and incentives • Temporary workers • Informal workers • Choice • Bricks and books and beyond • Young workers • Pensionable pay • Variability in salary inflation • Mass exits • Longevity