

Benefits models fit for South Africa

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Authors and contributors



Alexander Forbes
Research Institute

We hear our members: It's time to rethink retirement savings!

Benefits Barometer has now entered its fourth year. Already, in its short existence, we can see how it's reshaping the conversation around employee benefits, retirement savings, managing risks and meeting the financial needs of individuals in South Africa. Each year Benefits Barometer has challenged us to consider whether our industry is being as effective as it could be to meet what matters most to these individuals. Each year we get that much closer to understanding what changes need to occur in our industry. Our aim is to keep pushing the industry, including ourselves, out of its comfort zone. It is a constantly evolving process.

Benefits Barometer 2016: Benefits model fit for South Africa reflects our most significant challenge to date. We ask if the needs of South Africans might be better served by expanding the objectives around retirement savings priorities. Should it really be only about retirement income?

What we know from surveys and focus groups with our individual clients is that retirement savings compete head on with saving for housing, education, additional medical care, risk protections and emergency savings, to say nothing about meeting the cost of everyday life. Our research is suggesting, though, that if we can help individuals to tackle these changing priorities through an integrated, evolving process that responds to their changing financial needs, we can gain far greater value from those savings and still meet a minimum protection for retirement. It's about creating a balance between tangible and immediate needs and longer-term demands such as retirement and income protections.

The key to success will be to create a new form of employee benefits platform or programme that helps individuals control when to shift from one savings priority to the next. Core to the value proposition will be the idea that individuals maintain a constant contribution to savings. But without question, the real benefit will come from allowing individuals to more effectively manage these savings to meet their targets before and at retirement.

This is not a challenge to government's reform process. Rather, we see it as an appeal to employers and the architects of benefit structures for employees. If we could help them provide a more expanded savings environment that allows their employees to address such issues as emergency savings, housing, education, medical coverage, risk protections and, yes, retirement savings, in one integrated framework, we believe we could help employers deal with their two greatest challenges:

- > Getting their employees to see real value in their benefits programmes.
- > Helping employees genuinely address their lifetime savings needs in a more cost-effective and disciplined framework.

We believe both of these points speak directly to employers' continual challenge of ensuring the financial stability and viability of their employees. It's a measure that has direct linkages to higher employee engagement and productivity.

It's a vision that demands different thinking and more flexible solutions. We will have to build these concepts out bit by bit. But if we can succeed in shifting the language, focus and thinking of the savings and risk industries, we feel we will have provided employers and employees with an invaluable benefit.

And who knows ... if these ideas begin to resonate, perhaps this can form the start of a wider debate with policymakers.

Executive Summary

Here and now, South Africa stands at a critical pause point as to how the future of social protection, employee benefits and retirement savings will unfold.

Our question at this juncture is this: How do we design a programme that would have the greatest impact on serving the interests of South Africans, their employers, union representatives and the government as a whole?

In this edition of Benefits Barometer, we contemplate a brand-new model for longterm savings that better serves the needs of South Africans. By building this breakthrough model within the existing framework for retirement savings, we believe that a more rewarding and holistic financial solution will be simple and easy for employers of all stripes to introduce.

We start with a provocative question: **Should a singular focus on retirement savings be the top priority for South African workers?**

By allowing employee benefits to tackle a broader set of financial imperatives for individuals, we believe we could build a model for long-term savings that will have a considerably greater positive impact on South Africa's current challenges.

The model proposed in this edition of Benefits Barometer aims to increase the financial capability and fiscal responsibility of South Africans. By promoting self-determination and financial empowerment, the model provides a way for South African workers to map their own way to financial stability for their families. Success on this front has the potential to reduce future dependencies on government grants and social protections.

Consider the statistics: Members are currently retiring from our retirement funds with an average replacement ratio of 32%. Preservation rates are averaging around 8% of members¹. By all accounts it would seem our system is not delivering the required results for many participants. As we have previously argued, our system has simply become too fragmented. Trustees focus on retirement benefits, policymakers focus on retirement benefits, and umbrella funds, which have now replaced many employers in offering employee benefits, also provide a singular focus on the retirement funding issue. In summary, with the conversion from defined benefit funds to defined contribution funds and from standalone funds to umbrella funds, who is now helping the employee with their financial journey that marks the greater part of their lives?

But ask South Africans about their desire to save, and the willingness is clearly there². The problem is that the long-term savings priorities of funding homes, educating children, providing for medical emergencies and ensuring that families are protected against risks all tend to compete head on with saving for retirement. Short-term financial crises also play havoc with any of these financial commitments.

Where help is desperately needed is in enabling individuals and their families to better manage these conflicting demands. It's essentially a balancing act for South Africans between meeting aspirations of social mobility, ensuring social protection, and acquiring greater financial capability for themselves and their families. By addressing these issues, we stand a better chance of getting South Africans to engage with longterm savings. And if long-term savings can only be realised when there are short-term funding options to fall back on in time of financial crisis, then we need to solve for that as well.

By creating an integrated approach to solving a range of long-term savings priorities, it makes it much more likely that individuals and their families will meet their lifetime goals. It's an insight that we believe could have significant implications for how we conduct financial planning in the future.

We believe we can address this challenge but we'll need to rethink how we engage with long-term savings. We'll need to stretch our existing framework to allow members to solve for multiple life priorities in a controlled and interactive environment – both up to and after retirement. This means a new form of benefits platform (which leverages current underlying blocks) that will allow us to offer scalable and affordable solutions to individuals, whether they're part of an employer group, an affinity group, or no group at all.

South Africa remains a leader among developing economies in financial services sophistication. Isn't it time we started to apply this depth of know-how and insight to solving these trade-off problems for South Africans?

This edition of Benefits Barometer sets out the vision. In so doing, we've come to see that an integrated approach to solving a range of long-term savings priorities makes it much more likely that individuals and their families will meet these goals. It's an insight that we believe could have significant implications for how we conduct financial planning in the future.

We hope as well to discern just how attractive such a model might be to both employers and employees. But while we test these waters, for those employers, unions or boards of trustees who find aspects of this concept compelling, we believe that some progress to this end can be achieved within the existing benefits framework provided by your companies and industries. None of the suggestions we make are contingent on government finalising its thinking around tax and retirement reform. As such, we believe you could implement aspects of these proposals with limited cost or impact to your current fund structure. It's more a matter of repositioning the value proposition of savings to your members and introducing vehicles that could help them address those competing life priorities.

Let's begin to explore this potential.



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References

- 1 Alexander Forbes Research & Product Development, 2015
- 2 ReThink Africa, 2016

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