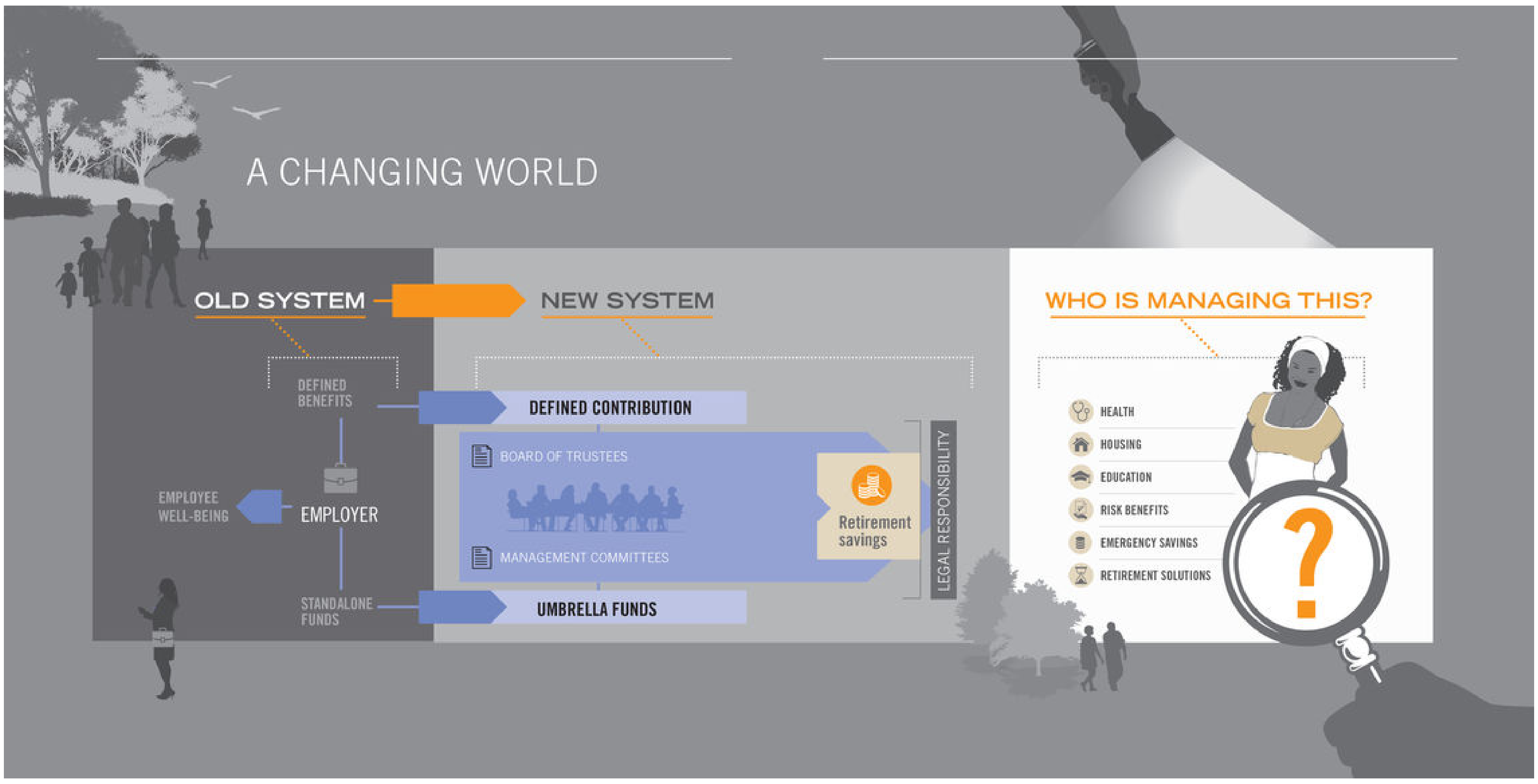
[Benefits models fit for South Africa](#)

Setting the scene

01 June 2016 | Issue



We end this section with the recognition that we need to move beyond speculating what employees want from a long-term savings programme to asking them directly. In the last chapter of Part 1: ['What do our members want?'](#), we present the findings from the online survey, focus group interviews and one-on-one dialogues that we conducted with members from the Alexander Forbes Retirement Fund, the umbrella fund for the Alexander Forbes Group. The findings were not surprising for a country with our history and demographic profile: savings were important, but saving for a retirement income was not as high a priority as making sure that there was a home, a means to social mobility and protections against potential loss. This clearly gave us pause for thought: while long-term savings were an important priority for almost all our respondents, did we serve the best interests of South Africans by having such a singular focus on retirement savings at the expense of other priorities?

The Context

2013: Three years ago we embarked on a journey with Benefits Barometer. We started with a simple question: How effectively were employee benefits meeting the needs of South African employees? The answer in 2013 was: not very. And so began a long and complex path of discovery. At that time, one core problem loomed large – **the system developed to provide for employees' mental, physical and financial well-being was too fragmented.** Too many decision-makers in employee benefits delivery weren't coordinating their efforts. Indeed, at times they seemed to be almost acting in opposition to each other.

2014: By 2014 we recognised that any progress to resolving the problem was further complicated by the fact that both employers and employees were gradually disengaging from the debate. From the employers' perspective, the shift to the defined contribution model and to an umbrella fund administration framework (encouraged by both policymakers and the financial services industry) meant that less and less was being demanded of the employers' involvement in securing their employees' future financial well-being. And from the employees' perspective, individuals were far more concerned with their day-to-day financial stability than they were with their retirement savings. A disengaged employee meant that employee benefits in general were neither well understood nor particularly valued. Our conclusion in 2014 was that **unless**

the financial services industry could help individuals with the here and now of their financial well-being, saving for retirement or buying income protection was going to rapidly lose relevance in people's lives. Given that these benefits represented the only significant safety net they and their families had to fall back on apart from the old age grant and the Unemployment Insurance Fund (UIF), the situation was serious.

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2015: As such, *Benefits Barometer 2015:'Financial Well-being'* reflected a dramatic shift in focus. Our research on the pension fund industry turned to the plight of the individual trying to manage their own financial well-being. The logic was simple. Until we could stabilise members' financial well-being, retirement funds and employee benefits were at risk of being cashed in at the first opportunity. **The workplace provided an excellent place for engaging with employees and their families about financial stress and their capabilities.**

From the employers' perspective, having employees in financial crisis posed real risks to any company, but the fact of the matter was that most financial wellness and employee assistance programmes were falling far short of the mark of reducing those risks. Benefits Barometer 2015 provided a veritable roadmap to why these programmes failed, what needed to change, and how the financial services industry could step up to provide this critical resource.

The problem, though, was that meeting such a need effectively demanded a complete overhaul of the industry: its business models, its mode of advisory and consulting engagement, and its digital, customer relationship management and administration systems. Getting this right was no longer about selling products, but about nurturing behavioural change. It was about understanding that the average South African retirement fund member experiences a rollercoaster ride in the course of their financial lives, veering from time to time towards debt and potential financial ruin, and then righting themselves and clawing back towards stability. This meant that the industry needed to find a way to finally bridge the gap between the credit-impaired and the creditworthy in the way it serviced individuals. After all, these were for the most part the same individuals and families at different stages in their financial journeys.

Enhancing individuals' financial decisionmaking skills also demanded a completely new type of product and service offering. It needed to be one that would actually help individuals understand the trade-offs they were making whenever they made a financial decision or bought a financial product. This framework would need to allow them to tailor the product to address which tradeoffs were optimal for them. Importantly, it needed to help them understand the potential consequences of their decisions over a longer term.

But as compelling and convincing as all this sounded, one fundamental stumbling block still remained: how could such a monumental shift ever be funded? Put simply, the cost of the shift could exceed any pay-off time that shareholders of a publicly listed company might tolerate. It could also exceed the funding and distribution requirements of any start-up disruptor.

2016: And then came February 2016. This was the month that government pushed the pause button on some of the retirement reforms. This was such a critical point of inflection for this whole conversation. The debate around issues such as mandatory annuitisation and preservation and whether South Africa had an effective social security net threatened to merge into one potentially explosive issue: Whose money was this anyway that was being allocated to this savings programme, and who has the right to determine what happens to it?

Makhado R Ramabulana, an advocate in the Pension Funds Adjudicators Office, argued in a *Business Day* opinion piece that "in the debate over the changes to pension funds administration arising from the *Taxation Laws Amendment Act*, both sides make reasonable points"[1]. He went on to contextualise the discussion by pointing out that employment and the role of pension funds have changed dramatically since 1956 when the Pension Funds Act was first passed:

Instead of a paternalistic role, where the employer provided a life-long employee with a gold watch and a pension for the rest of their lives on retirement, increasing employee mobility (to say nothing of increasing concerns about the financial risks that funding these liabilities posed to a company) demanded a much more portable solution, one that today is perceived more as a personal savings plan than a retirement savings programme. The shift from the company-centric defined benefit (DB) scheme where the employer carried all funding responsibility, to the employee-centric defined contribution (DC) model, meant that the employer shifted this responsibility by simply accounting for the funding in an employee's total cost-to-company calculation. What was effectively once a gratuitous company perk has now become a deduction from an employee's salary package. Considering that it's not compulsory for employers to offer a pension fund scheme to employees, it's little wonder that employees began to regard these schemes as sources of accessible savings rather than as inaccessible retirement provision[2].

> **Whose money was this anyway and who has the right to determine what happens to it?**

How should we understand the role that employee benefits should really play for the employer?

Graeme Kerrigan's 1991 notes, as a former Alexander Forbes actuary and chief executive, on why unions like Cosatu lobbied hard for the shift from DB to DC – even when on some level it didn't appear to provide employees with the best income security after retirement – provide historical context. At that time, these were considerations that were uppermost in the minds of those who advocated the shift:

- Workers' priorities lay with housing, education and funeral benefits, none of which were catered for in existing DB schemes.
- Lump-sum benefits were preferred over income benefits because of a lack of confidence that pensioners would receive an ongoing income in rural areas.
- Most employees at unskilled levels expected to resign or to be retrenched rather than to retire, and wanted good early-leaver benefits.
- Low-income employees believed that they had a higher death rate than higher income employees and that they would therefore end up subsidising the pensions of higher income employees.
- There was little understanding among DB scheme members, whereas the alternative DC provident funds were seemingly simple, easy to understand and communicated to all levels of members.
- Members had no share in fund management. Workers distrusted the paternalistic attitude of employers, who were perceived to dominate existing schemes.

All of these concerns pointed to the need to create a more inclusive and flexible savings model that better addressed the realities for many workers at that time. Clearly a win on this front would provide the trade union movement with a cause around which they could "consolidate existing membership and recruit new members"[3].

Today, many of these same points probably still apply. That said, in spite of all the sabre rattling about whether tax and reforms to this hard-fought-for model would be tolerated, what doesn't appear to be in question is **whether retirement funds should exist in the first place.**

Rather, two other more challenging considerations appear to be at issue:

1. If government wants to mandate preservation and annuitisation, this requires an effective social security system that can provide a financial safety net during times of crisis.
2. If workers' assets are to be tied up in government or financial services coffers, who ensures that these assets are managed in members' best interests?

Perhaps the important point is that if there is even a shadow of a doubt from members, the system then becomes vulnerable to substandard behaviours.

More importantly: if the debate becomes too contentious and the recommendations too prescriptive on how workers must allocate their savings, there might be an unfortunate backlash. Difficult questions might be raised about who has the right to make that call.

Concluding thoughts

If the debate becomes too contentious and the recommendations too prescriptive on how workers must allocate their savings, there might be an unfortunate backlash. Difficult questions might be raised about who has the right to make that call.

If ever a time was ripe to rethink exactly what we are all doing here, this would probably be it.

References

1 Ramabulana, 2016
2 Ibid
3 Kerrigan, 1991