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COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS

JULY 2017

RETHINKING RETIREMENT

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By Petri Greeff

INTRODUCTION

Questioning how we think about retirement

"But that's the way we've always done it!" is a statement that stops us from adapting as the world changes. The concept of retirement as we know it needs to be turned on its head.

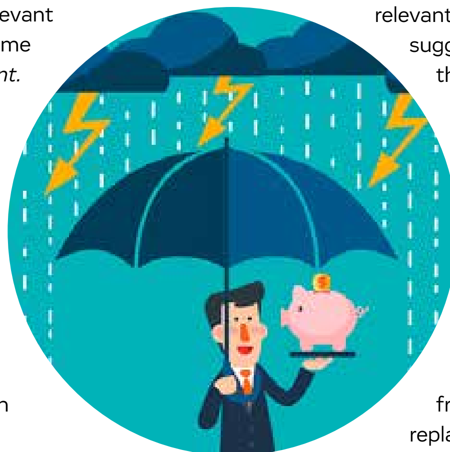
A while back I heard an interesting story that brings to mind the dangers of institutionalising specifications. I'll share parts of it with you to help you see why this resonates with me.

The US railroad is four feet and 8.5 inches wide. Why? It was built by the English, who also built the tramways using machinery designed for wagon-wheel spacing. They used this machinery because this was the spacing of the old wheel ruts of long-distance roads in Europe that were built by Imperial Rome many centuries before. The original ruts were first made by the wheels of Roman war chariots which were designed to be just wide enough to accommodate the rumps of two war horses. During all that time no one questioned the thinking behind this and it continued for centuries!

Now, if you are as confused as I was, let me explain how horses tie into retirement. I cannot vouch for the authenticity of this story, but it highlights that what may have been relevant for a specific reason years ago, i.e. the width of two horses' hindquarters, is no longer relevant today.

We continue to follow the specifications for this paradigm that was set 130 years ago in a different environment, for a different generation.

Speaking of interesting stories and irrelevant reasons brings me to the July edition's theme of *Collective Insight – Rethinking Retirement.* The articles published in this edition question the thinking behind what we have come to accept as the norm in the retirement industry. For example, why should we invest our hard-earned salary into a benefit we will only receive after we really need it? Why should we retire at 65 when we may in the future be retired for longer than we have ever worked? Why did we decide that when we retire, we should sit on the *stoep* and watch the world go by?



Again, the horse story comes to mind and is applicable to our current retirement paradigm. Why? We continue to follow the specifications for this paradigm that was set 130 years ago in a different environment, for a different generation. These specifications may be completely irrelevant now.

So, let's rethink retirement. To help us, we have invited some of the industry's best minds to share their (re)thinking on retirement. We received a number of excellent articles challenging existing thinking and are excited to share a selection of them.

This edition kicks off with an article by Mark Hawes of Alexander Forbes on page 20. He provides an overview on how the retirement paradigm was created. He points out that the retirement age back then was beyond the average life expectancy of the population. Ironically, the person credited for conceptualising this paradigm outlived his own expectation by 18 years!

On page 21, Sanlam's Danie van Zyl and Natalie van Zyl focus on how Generation X is dealing with retirement preparation. As this generation enters its prime income-earning capacity, saving for retirement often takes a backseat to managing high debt levels and other financial obligations. The latter includes supporting aging parents and unemployed family members, paying for their children's education as well as high medical costs.

Turning to page 24 and Michael Falk from Focus Consulting Group provides insight on whether 65 is still relevant as a retirement age in modern times. He suggests retiring to, instead of from, something that is longer than a few months in duration. If you don't have something in mind, then don't retire or you could end up simply being unemployed.

Similarly, Deon Gouws from Credo Group believes in the importance of finding a job you enjoy doing. It's a better alternative to retiring prematurely and taking the substantial financial risk that comes with it, he writes on page 26.

Shaun Levitan and Costa Economou from Colourfield share their view on how to replace our income when we retire. On page 27, they talk about the importance of communicating in "income" so that it highlights to members whether they are in a better position than they were at the start of the reporting period.

We also investigate some innovative retirement ideas that require a bit more development.

Gallo Getty Image/iStockphoto

Nthabiseng Moleko from University of Stellenbosch Business School points out that the existing product range, from provident or pension funds, are suitable for the formally employed sector. However, they exclude low-income households and the informally employed masses, who are the same individuals most likely to seek state support in the medium to long term. In doing this, they heavily burden the fiscus and future generations. She also discusses some novel ideas around micro plans for pensions on page 28.

On page 30, Stanlib's Kevin Lings finds radical new ways to fund retirement. These including linking formal retirement savings to a physical property that you live in for many years to creating mentorship roles for retired employees through a tax deduction on their retirement income.

Professor Lionel Martellini from the EDHEC Business School predicts that the new frontier in retirement investing is mass customisation. He writes that new ways need to be found to provide a large number of individual investors with meaningful dedicated investment solutions. (See page 32.)

Wrapping up this edition on page 33, Anne Cabot-Alletzhauser from Alexander Forbes argues that for individuals to really engage with their long-term savings plan, they need to be able to leverage their account resources at strategic points along their financial life cycle. She believes that an effectively-structured benefits programme could be a powerful framework for creating a targeted financial planning tool that assists South African employees.

We trust you find the insights as thought-provoking as we did and that they shift your retirement paradigm. Happy reading. ■

Petri Greeff is an executive at RisCura.

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By Mark Hawes

RETIREMENT FUND STRUCTURE

Is retirement natural and inevitable?

The concept of stopping to work at a certain age is a fairly recent invention. Yet it's time for the concept to be re-invented to better suit today's circumstances.

Have people always retired? The short answer is no, which then begs the question: when did we start retiring? Is retirement sustainable? Let's first consider what retirement is.

Generally, the word "retirement" has come to refer to leaving formal employment or stopping all income-generating activities. Legally, retiring refers to your tax status and access to your retirement savings in terms of the post-retirement investment vehicle options available.

So have human beings always reached a point in their life where they stop earning an active income?

Historically, we simply did not live long enough to even consider the possibility to stop working. In the 18th century life expectancy was only 35 and rose to just above 50 when Alexander Fleming discovered penicillin in 1928. Consequently, people simply worked as much as they physically could until they died.

In addition, saving was incredibly onerous as economies were dominated by a subsistence lifestyle; feudal-style taxes were paid to maintain the central powers rather than channelled back to the citizens and financial systems for saving were rudimentary at best.

How, then, did retirement come about and why at age 65? The person generally credited with "inventing" retirement as we know it, is Chancellor Otto von Bismarck in 1883, but his objective was mostly to increase his popularity with his people, and to stem the tide of rising Marxism in Europe. He announced that he would pay a pension to any citizen of the age of 65. This was well past the life expectancy of the population in the 1880s and therefore a relatively safe bet for the government purse.

In addition, the Industrial Revolution had sparked a trend of urbanisation, funnelling people out of rural life and into cities that were industrial and business orientated. Scientific motivations were put forward where people were beginning to be classed as less productive due to the reduced physical ability of people to work after age 60 – the most notorious being the famous physician William Osler who believed the average worker is "useless" after age 60.

The rise of pension funds

Retirement therefore gained popularity as an economic necessity as people started living longer; unemployment took hold after the Great Depression in 1929 and young men returned from both the First and Second World War seeking jobs. In 1935 Franklin D. Roosevelt proposed the Social Security Act where workers had to pay for old-age insurance for their own future.

Currently only **2%** of the working population can afford to retire and maintain their current lifestyle and only **10%** can afford to stop working (retire) at all.

Retirement had become an economically attractive option to push the "elderly" out of work, making way for new job seekers, and leisure was motivated as the reward for years of hard work.

SA formally joined the retirement system of employer-based retirement plans with the passing of the Pension Funds Act in 1956. The defined benefit scheme was initially the preferred structure. However, though it was a great model in boom times, it represented a significant and possibly crippling risk for both employers and employees alike during difficult economic times.

Since the turn of the century, there has been a significant migration to defined contribution schemes, where retirement savings are completely separated from the employer and more responsibility shifted to the employee. The role of the employer has changed from a paternalistic one to that of a supportive facilitator. The employee, in turn, is given a more central role in determining their own retirement outcomes, necessarily taking more responsibility and risk.

Ironically, having both the time and the savings to fund a leisure lifestyle in retirement still is the exception rather than the norm. Currently only 2% of the working population can afford to retire and maintain their current lifestyle and only 10% can afford to stop working (retire) at all. Most people have no choice but to find some other means to create an active income. This is evidenced by the number of retirement fund members cashing in their retirement savings (roughly 80%) to make provisions to create income-earning opportunities both pre- and post-retirement.

An unemployed man in a street in Berlin, Germany, during the Great Depression, wearing a poster indicating that he will take any kind of work as he has no form of support.

Getty Images/Archiv Gerstenberg/ullstein bild

Knowledge-based work

Fortunately, the nature of work opportunities has evolved from labour-based to knowledge-based jobs. In an agrarian-dominated economy, a person's value was based on physical strength. When we were no

Retirement therefore gained popularity as an economic necessity as people started living longer; unemployment took hold after the 1929 Great Depression and young men returned from both the First and Second World War seeking jobs.

longer able to labour at our peak, we could not afford to simply stop working. Rather, older people moved to less labour-intensive roles such as managing the allocation of resources and labour, and called on to take important decisions for their family or community. They were the elders in the community by virtue of the experience and wisdom required to reach old age, earning the right to take up knowledge-based work, taking on greater responsibility for the well-being of their family or community.

As the level of education of the general population improved, the opportunity for more knowledge-based functions has increased as mechanisation reduces the demand on our bodies. This affords us more time and energy for problem-solving and knowledge-based endeavours, to such an extent that there are serious debates around the nature and future of work itself.

Thus, the factors determining the possibility to stop working have not changed, except we now expect to stop working, retire and live a life of leisure. As suggested, it was the wealthy that could afford to do so – 90% of the current working population still cannot afford to stop working.

The key to retiring is for savings rates to steadily increase to an amount equal to the amount of consumption required when active income stops. That effectively means to delay consumption over one's working career enough to sustain consumption when one stops working.

The 80/20 rule

If we follow the Pareto principle (the commonly referenced "80/20 rule"), savings rates should reach an equilibrium at about 20%. The Alexander Forbes Pension Index indeed shows that to achieve a 75% income replacement ratio at 65 one would need to save just under 20% over one's working career of 40 years. Sufficient government policy intervention, such as tax incentives to delay consumption and reduced access to retirement savings, should be able to influence this natural equilibrium level to a more favourable outcome, i.e. more people who can afford to retire.

Unfortunately, the increased access to retail debt facilities has swung the savings pendulum in the opposite direction. Consumption is not being delayed but rather accelerated by spending tomorrow's income today. Spending on debt has steadily increased and has reached the 80% mark. This is unsustainable, as we saw in the 2008 sub-prime crisis. It is therefore no coincidence that we find 80% of pensions being cashed in. Thus, savings rates have not reached the equilibrium levels required to sustain the retirement system.

To avoid a potential impending retirement crunch, saving needs to be made easy and automatic. A possible solution may be to focus on where we are with what we have. The ideal would be to focus on the knowledge, skill and capability of the individual (especially as the nature of work continues to evolve), rather than making age the eligibility criterion to work.

To improve retirement for all we should consider the previous natural state of affairs where an individual only stopped working when they were no longer sufficiently capable to do so. As a secondary objective, we can then focus on getting people in a position where they have enough resources to purchase a life of leisure. The current financial services industry is well set up to achieve the latter objective, but limited in the former basic conditions for the critical mass. ■

Mark Hawes is a senior financial consultant and adviser at Alexander Forbes Financial Planning Consultants.

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By Natalie van Zyl and Danie van Zyl

RETIREMENT

Generation X and retirement

Will this be the generation to redefine retirement?

Members of Generation X – those born between 1965 and 1979 – are hitting middle age and are slowly beginning to take over the leadership positions in business and society. What experiences moulded this generation and will continue to affect their attitude towards life, work and retirement?

GenXers grew up during a time of major social and technological change. The 80s and early 90s were a turbulent and sometimes violent time in South Africa during the struggle for freedom. This generation experienced changes in family composition with HIV/Aids, urbanisation and divorce altering traditional family relationships and support networks.

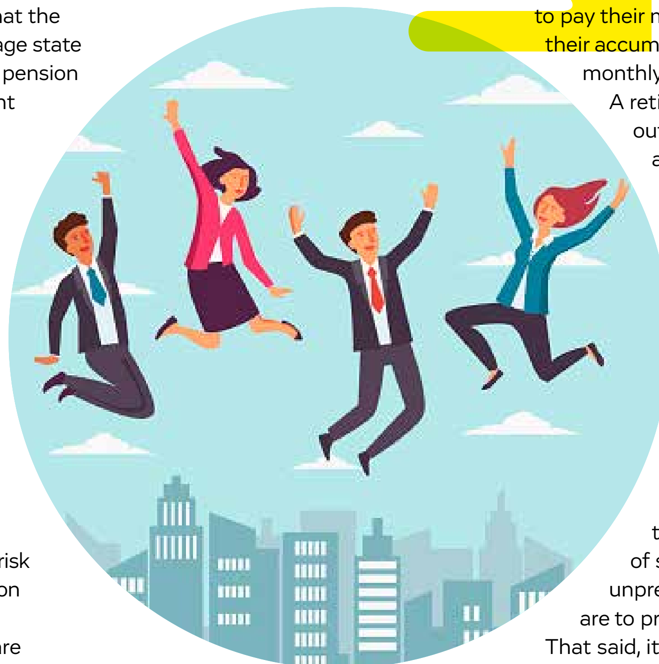
As a result, many see this generation as more autonomous and self-reliant than their parents. However, financial family obligations still weigh heavily on many South Africans, especially those who have managed to achieve greater financial success than previous generations.

This generation is also unlike their parents when it comes to retirement savings. For some families, it will be the first time that the elderly will not need to rely on the old-age state pension. For others, the type of private pension they can look forward to is very different to that of their parents. When GenXers entered the workforce, traditional defined benefit pension funds were making way for newer defined contribution retirement funds. This places South African GenXers in the unenviable position of being a litmus test for how well these new defined contribution funds can deliver on members' expectations.

While retirement has been off the radar for most GenXers, it is now becoming visible on the horizon and retirement reality will start to bite during the next decade. GenXers will need to face the fact that the responsibility and risk of funding for retirement rests squarely on their shoulders.

However, at a time when GenXers are entering their prime income-earning capacity, saving for retirement is often taking a backseat to managing high debt levels, financially supporting aging parents and unemployed family members, paying for their children's education and high medical costs.

Financial independence means that GenXers no longer have to rely on an employer to pay their monthly salary, but can rely on their accumulated savings to pay them a monthly income for the rest of their lives.



Gallo/Getty Images

Financial stress

Instead of being in control of their finances, this generation often spends more than they earn. The 2017 *Sanlam Benchmark Survey* found that financial stress peaks between ages 41 and 45, impacting on GenXers' ability to boost savings. Their biggest source of stress is short-term debt like car payments, credit card debt and personal loans. The survey also found that less than half GenXers are able to meet their debt obligations all of the time.

However, the survey also found that financial stress decreases closer to retirement, perhaps indicating that having the children's education bills behind you buys some financial breathing space.

Redefining retirement

Despite all the negatives, could GenXers be the generation to redefine the concept of retirement and retirement age, rather working to achieve their financial independence?

Financial independence means that they no longer have to rely on an employer to pay their monthly salary, but can rely on their accumulated savings to pay them a monthly income for the rest of their lives.

A retirement date then becomes an outdated concept, giving way to a much more flexible and fluid understanding of phasing out of employment through contract or part time work (after leaving full-time employment) rather than a sudden and complete break in employment.

As GenXers, many of us have a personal example of what retirement under-preparedness looks like in the form of a dependant parent(s). Behavioural finance tells us that the easier it is to recall an example of something, in this case financially unprepared retirees, the more likely we are to prioritise our own retirement saving. That said, it is difficult for anyone to ignore pressing financial needs of close family to save now to ensure that we don't end up in the same position. This is especially true in SA, where parents traditionally cared for their children and expect reciprocation of this care when they are in their old age.

If serious saving starts later on in life, phasing out of employment post the traditional retirement date may be the only way to build up the needed nest egg.

The problem with this is that lifespans are now extended beyond what previous generations expected or planned for. If a burden of care is accepted, then that burden will probably last longer than it did for our parents. We, in turn, are also expected to live longer than previous generations.

In a society where inter-generational connectedness appears to be weakening, do we believe, as our parents did, that our children (if we have any), will take care of us if necessary? This means that they have to be in a good enough financial position to be able to assist and have a strong enough relationship with us, or at the very least feel a moral obligation, to want to assist. Stories already emerged in previous *Sanlam Benchmark Survey* face-to-face pensioner interviews of some children who do not feel obliged to help, even if great sacrifices were made to give them an education.

If we expect to be responsible to care for our own financial needs after ending full-time employment, a possible recourse for us may be to put a higher priority on saving for our own future. Given the financial difficulties currently experienced by GenXers, a window of opportunity to make these savings may only open up after our currently relational responsibilities have passed.

GenXers also face moving goal posts. The traditional goal of a nest egg worth 15 times annual income at retirement has already been questioned giving increased life expectancy. If serious saving starts later on in life, phasing out of employment post the traditional retirement date may be the only way to build up the needed nest egg. This makes sense given that we expect to live longer than our parents' generation. Given current circumstance, redefining traditional retirement may be the only option that will result in comfortable financial independence later on in life. ■

Natalie van Zyl is a senior lecturer of actuarial science at Stellenbosch University and is the deputy chairperson of the Actuarial Society of South Africa's (ASSA's) Social Security Member Forum. She writes in her personal capacity. **Danie van Zyl FASSA FIA CFP®,** heads up the Guaranteed Investments team at Sanlam Employee Benefits.

6 STEPS TO FINANCIAL INDEPENDENCE

Fortunately GenXers have just enough time on their side to plan for their financial independence. However, there is no room for error, unlike a 20-year-old who can bounce back from a financial disaster, GenXers do not have the luxury of starting over again – it is time to get serious and taking the right steps now.

Here are some strategies to get GenXers back on track for financial independence.

1. Beware lifestyle creep and save more

As GenXers hit middle age, chances are that they have a higher earning capacity than ever before and have built up some assets (property etc.). The temptation is to loosen the grip on thrift and have some fun – buy that fancy car you've always wanted, the bigger house – you've earned it! Lifestyle expenses tends to increase year after year, at the cost of reducing debt or saving. Budgeting and tracking expenses isn't fun, but there are no short-cuts around this one.

2. Focus on short-term debt

Financial distress affects productivity, personal and family life. If unpaid credit card debt is keeping you up at night, check if your employer offers an employee financial wellness programme and take advantage of it. Repeat, live interactions with a financial counsellor can help GenXers tackle their debt.

3. Whittle down mortgage debt

Mortgage payments are often one of the biggest expenses, after sorting out your short-term debt, boosting your monthly repayments (or using your bonus) to a flexible home loan can help you become debt free. The faster you pay off your home loan, the less interest you'll incur over time.

4. Estimate how much you need to save for financial independence

Use an online calculator provided by your retirement fund or independent firm to estimate how much capital you'll need to replace 75% to 80% of your income in retirement. Roughly speaking, you should aim to have saved around 4.5 times your current salary at age 45. A calculator would help you fine-tune how much you need to aim for. Don't forget about healthcare costs in retirement.

5. Catch up on your saving for financial independence

Ramp up your savings when you have reduced your debt levels. Most retirement funds will allow you to contribute more monthly, all in a tax efficient and convenient manner.

Resist the temptation to access your retirement fund money when you change jobs, you are unlikely to make up the shortfall in your nest egg later and may never achieve financial independence.

6. Sort out the paperwork

By now GenXers should have a valid will and have made guardianship provisions for any minor children. If not – do it now! Also consider whether your will is still appropriate.

Generation X may be the "neglected middle child", but there is still enough time for this generation to take the necessary steps to determine their own future. ■

Gallo/Getty Images

By Michael Falk

ADVICE

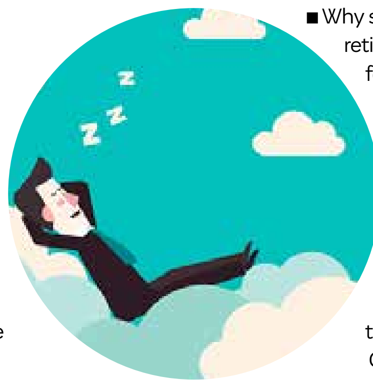
Tips for a happy retirement

Since the average human lifespan has increased drastically, many people live for many decades past the current retirement age. Here are some ways to make your money (and health) last.

Enough! All this non-stop, commercialised "I need to plan in order to retire comfortably in future" twaddle. Other thoughts that are constantly being drilled into investors' heads include: Will I survive until my retirement? Can I spend less today so I can maybe spend more tomorrow?

Who are they – "they" being members of the financial services industry – kidding?

They are *not* kidding. However, they may be somewhat conflicted since those invested retirement rands generate fees.



Let's consider three key unconflicted views on retirement before reaching conclusions:

■ The medical profession continues to research aging and the impact(s) on retirement. The discoveries around retiring completely, or exiting the workforce, while still living, should be of interest. It seems "stopping" is bad for your health. Negative health shocks and mortality are generally higher following retirement. So, retirement could be bad for your health. Maybe don't retire completely. Work part-time, or at least stay active.

■ Members of the sociology community don't speak directly about retirement, but discuss happiness. Their views support the notion that friendships, relationships and community as being integral to health and happiness. This connects with retirement if only from the perspective of withdrawing from your working community. How much of your social time is spent with co-workers? Surveys in developed countries show that people sometimes don't retire because they enjoy the company of their co-workers.

If you remember your wedding vows (for better/worse, sickness/health, richer/poorer) you may have forgotten the most important "but *not* for lunch". You, your spouse and 24/7 – just sayin'. Work to keep your relationships alive and well. Get out of your house for at least part of the day.

■ The psychology profession also doesn't speak directly about retirement, but about mental well-being. People often have their personal identity wrapped up in their work identity. Think about when you meet someone for the first time. After the name exchange, often comes the question "What do you do?" What happens when there's no work? This sense of yourself is inextricably linked to health and happiness. Don't retire from something, but rather to something that is longer than a few months in length. If you don't have something in mind, don't retire. Volunteer, pursue hobbies, interests (perhaps go back to study) and your "bucket list". Don't just exist, live with purpose.

Don't retire from something, but rather to something that is longer than a few months in length. If you don't have something in mind, don't retire.

Maybe the concept of retirement is little more than a financial industry scheme to generate fees. The *unconflicted* view would suggest that maybe you should *not* retire. **Okay, but:**

■ What if you can't find work before wanting to stop working? Maybe re-think retirement as unemployment for older individuals. If you're older and can't find work, retirement savings can mitigate stress levels.

■ What if you don't die before retiring? Maybe re-think of retirement savings as survivor insurance. With no savings, trust that you will *not* thrive.

■ Why save for retirement if you are not likely to live that long after retiring? Those savings might help replace your lost earnings for your spouse, or another family member. Might this be a legacy of "paying it forward"?

Saving for later in life – whether in a retirement product or not – is beneficial. Don't risk your older self having to face retirement without savings. Imagine yourself retired, aged 70 and short on money. According to research, people shown an simulated aged picture of themselves set aside 6.8% of their pay for retirement, on average, versus 5.2% for those shown a current picture of themselves. (See http://bit.ly/2sUI1AW.)

Conflicted or otherwise, the financial industry has a role to play. Perhaps the most pertinent question is how to save enough for retirement without sacrificing too much of your lifestyle today. The advice will likely be to plan one step at a time.

These steps are tried and tested:

1. What will retirement cost you? Use a retirement calculator or the assistance of a qualified professional to estimate your needed and aspirational spending. These estimates are unique to you and can be done for a variety of retirement ages.

2. Find out how much, if any, retirement benefits are available to you from an employer or government, through an old-age subsidy.

3. The difference between #1 and #2 are your savings goals. Based on age and time to selected retirement age, the calculator and professional can help you understand how to reach both your needs and aspirational goals. Even if the amount is daunting, start saving *now*, and regularly every month. Every bit helps. Save before you start spending. Promise your future self to increase your savings amount with every pay increase. Within a few years, you will find that you have managed to save a sizable amount, and as you have done it consistently and regularly, you won't notice it missing from your pockets.

4. Invest savings for the long term. In investment parlance, this means diversifying some of your savings into stocks, with the help of a qualified professional.

5. Revisit #1 to #3 annually; #4 is often better reviewed less often.

Retirement is not cheap, but maybe that's because it's worth it. Saving this way will ensure that you have money at hand in case you fall ill, or lose a well-paying job before you want to retire. And remember, don't retire until you must. ■

Michael Falk CFA CRC, is a partner with the Focus Consulting Group.

Gallo/Getty Images

By Deon Gouws

HUMAN LIFESPAN

The path to non-retirement

The human lifespan is getting longer and longer. What does this mean for those who are putting money away for retirement? And can you imagine doing the same job for over 70 years?

When I started a career with one of the Big Four accounting firms in the late 80s, my new employer arranged an induction programme in the first week. One of the presentations was from the head of the Personal Financial Planning division, who opened with the following line: "In 40 years' time, 15% of you will be dead – and they are the lucky ones!"

What he was referring to, of course, was the very real risk of outliving one's money – especially in the context of speaking to a bunch of newly qualified professionals with a relatively high propensity to consume.

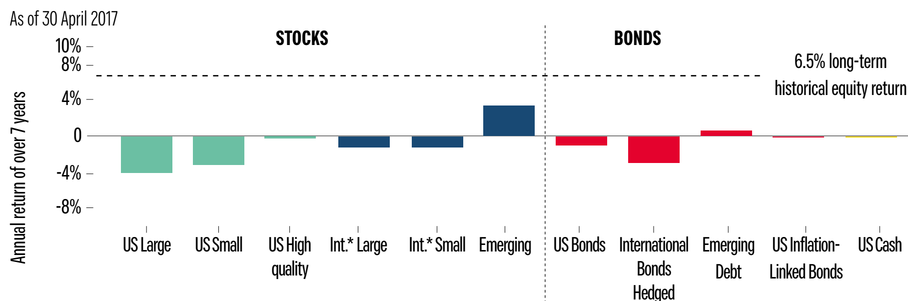
Fast forward the better part of 30 years, and this financial health warning could not be any more apt today.

First, we are all likely to live even longer than previously anticipated. With healthier lifestyles in the West, combined with a multitude of advances in the medical field, studies show that life expectancy has increased by some three to five years over the last three decades alone (the exact number being influenced by a number of factors, including country of residence and gender).

In fact, if one buys into the theories of the English gerontologist Aubrey de Grey – who postulates that most of the known causes for death from a biological point of view can either be cured fully or slowed down dramatically – there are people alive today who could live to the age of 1 000... imagine what that would mean for a pensions crisis!

But the fact that we're living longer is not the only challenge to our long-term financial wellbeing: we also happen to find ourselves in an age where expected returns from a range of investment alternatives are at or near all-time lows. According to the now-famous Shiller CAPE (cyclically adjusted price/earnings) ratio, stocks are trading at multiples seen only twice in the past 140 years. Closely linked to this is the work done by highly regarded international investment firm GMO, whose most recent returns forecasts for all the major asset classes are indicated on the graph above.

7-YEAR ASSET CLASS REAL RETURN FORECASTS



*International

SOURCE: GMO

The message therefore is that the next decade or more is not a time in which you should expect much assistance from "Mr Market" in creating meaningful wealth. Accordingly, most of us probably have to prepare ourselves for a longer career than previously imagined (unless of course one is fortunate enough to have built up a sizeable nest egg already).

Another point to consider is that many of us could face professional extinction in the next few years, as practically every working environment is being disrupted by technological advances. Chances are that you may soon have to retrain as a content monitor for a leading social media website, rather than continuing as a "normal" journalist, for example.

Speaking of journalists, well-known columnist for the *Financial Times*, Lucy Kellaway, recently announced that she will be leaving her well-paid job at the newspaper after 31 years to take on the role of a maths teacher at a "challenging" secondary school in London. What's more, she's also setting up an organisation to encourage other professionals to join her in spending the rest of their careers in the classroom.

Kellaway's change of career is a very good example of something which the late management guru, Peter Drucker, discussed in his book *Management Challenges for the 21st Century*. In a chapter entitled *Managing Oneself*, Drucker advises the reader to prepare for the second half of life, quoting the example of Max Planck who had not one, but in fact two more careers after originally retiring as a ground-breaking scientist in his 40s.

"Find a job you enjoy doing, and you will never have to work a day in your life"... this is a quote variously ascribed to Confucius, Marc Anthony, Mark Twain and a number of other philosophers and authors. But no matter who uttered these wise words first, there is certainly a lot of truth in it – and there's a much better chance of getting it right later in life, when one has sufficient self-awareness to make better and more informed choices.

> **The biggest advantage of finding this "perfect" job later in life, however, is that it's far better than retiring prematurely.**

The biggest advantage of finding this "perfect" job later in life, however, is that it's far better than retiring prematurely (and taking the substantial financial risk that comes with it). I will thus amend the quote as follows: Find a job you enjoy doing, and you will never have to worry about when it's time to retire! ■

Deon Gouws, CFA, is chief investment officer at Credo Wealth.

By Shaun Levitan and Costa Economou

COMMUNICATION

What is a good retirement, and how will I know if I'll get there?

It is imperative that retirement funds communicate with their clients in a clear, jargon-free way and explain what a client can do if their investment shrinks or is not growing at the desired rate.

Albert Einstein once remarked to Werner Heisenberg: "In the West we've built a beautiful ship, and in it we have all the comforts. But actually the one thing it doesn't have is a compass, and that's why it doesn't know where it's going."

Today we have a retirement industry that prides itself on innovation. It is possible for members to view their accumulated retirement savings in real time, construct their own portfolios and switch into any investment portfolio at a moment's notice!

But ask a member whether the R500 000 in accumulated fund credit is sufficient for their retirement and the chances are that they will not know. Our beautiful retirement ship has prioritised its attention to accumulating a "pot of money" but has lost focus on whether this pot will actually be enough.

Rethinking retirement should begin with a simple question: "What is a good retirement?" For most, a "good retirement" is one in which you are able to maintain your standard of living in retirement. This is achieved by being able to replace the income that was earned during your working years. In other words, a good retirement is one in which we are in a position to receive a level of income that meets our expenses each month, increasing in line with the cost of living for the rest of our lives.

A good retirement is one in which we are in a position to receive a level of income that meets our expenses each month, increasing in line with the cost of living for the rest of our lives.

Once this income goal has been established, it is possible to start communicating meaningfully with members and encouraging the right behaviour.

Consider the situation of a member who receives a statement from their retirement fund that shows they are on track for R5 000 a month of income (in today's money) when they retire in 30 years. In the first instance, this communication is meaningful and understandable to the member. They didn't require financial education on industry jargon like standard deviation, volatility and information ratios. They are also able to have some idea whether this will be sufficient for their unique life situation.

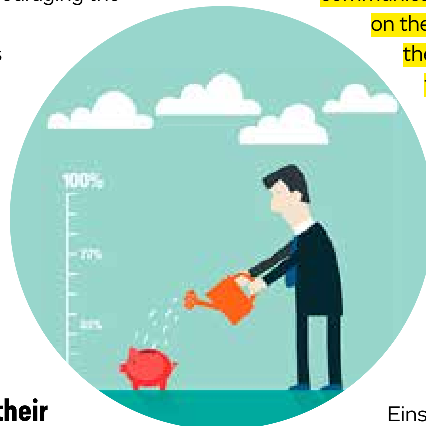
Assuming they are *not* on track to achieve their income goal, they can remedy this in three ways:

1. They can contribute more;
2. They might be able to retire later; or
3. They can take more investment risk.

An ideal communication framework needs to illustrate the impact of one or more combinations of the above remedies. The illustration needs to be simple, meaningful and understandable to the member, and it should ideally avoid focusing on jargon like "percentage of pensionable earnings" and "post retirement replacement ratios".

The benefit of such a framework is that it is possible to quantify and communicate the impact of an additional R100 a month of contributions. For example, a member is more likely to save more if they know it is needed (i.e. they are currently expected to receive less than what they need) and they can see the benefit. Without any context, R100 more saved towards retirement provision is just R100 less available to spend today. A calculation that shows that an additional R100 saved towards retirement savings each month is expected to yield an additional R500 a month of income (in today's terms) provides meaningful information that allows the member to better target their retirement needs.

This extends to analysis showing the impact of retiring early or how additional years working and therefore saving can impact on them.



From an investment perspective, a statement that communicates in "income", rather than one that focuses on the pot of money, highlights to a member whether they are in a better position than they were at the start of the reporting period. It should be cold comfort to a member if their equity portfolio outperformed a market index but underperformed the increase in cost of providing income in retirement. Conversely, a period of negative performance or a decline in your accumulated retirement fund savings is not necessarily something to be concerned about if the cost of providing income in retirement fell by a greater amount.

We should take account of what Albert Einstein said by rethinking retirement and shouldn't focus on the journey without keeping the destination in mind. There really is no point in having all the comforts if you don't have a compass to tell you where you are going! ■

Shaun Levitan and **Costa Economou** are co-founders of Colourfield Liability Solutions.

By Nthabiseng Moleko

MICRO-SOLUTIONS

Designing pension products better suited for our society

Most retirement savings products are aimed at people with a consistent income and who work in the formal economy, thereby excluding the vast majority of South Africans. By addressing this, the burden on the state can be decreased and the wellbeing of the country's growing number of pensioners improved.

Economic estimations show that the size of the informal economy is approximately 7% to 12% of our entire economy. Those within the informal economy commonly face exclusion from financial market access. This is not just with regard to access to basic financial services, but in relation to products that will benefit household financial stability in the long run.

Statistics South Africa attributes almost a fifth of total employment, or 2.4m jobs, as coming from the informal sector. Characteristics of workers in this sector include inconsistencies in income streams, limited financial literacy levels, and limited, if any, access to pension or provident funds.

The current pension burden and cash transfers the state makes is 3% of GDP, or R128bn in 2016. Much of this is towards old-age grants, the highest contributing factor at R53bn, or nearly half of the state's commitment. It has grown significantly in the last nine years, up from R21bn in 2008. Simply put, more households entering into retirement are reliant on the state for support. This is unsustainable in the environment of low growth, high unemployment and fiscal consolidation.

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Savings challenges

We know that the average South African household does not save, with a current savings rate of 16%, dwindling from a high of 37% in 1980. Households save inadequate amounts for their retirement, but this could also point to a systemic problem. Are there suitable financial products to absorb postponed consumption in the South African context? This is a relevant question for all African economies that have a combination of formally and informally employed making up their economically active populations. In some African economies it is skewed heavily towards informal employment.

A large majority of those working do not save, but even among those who do, the amounts are inadequate for retirement. Statistics from Old Mutual show the same number of people save for retirement as do for funeral expenses. This points to possible systemic issues when looking at the structure of the economy. Financial literacy and disposable income levels are direct determinants to savings contributions.

But looking at the supply side of the market, one has to question whether there are products that a domestic worker, security guard or seasonal farm worker can make use of for long-term savings towards retirement. Do financial services companies place enough emphasis on developing flexible and relevant savings products for retirement? There is certainly nothing similar to the funeral policies developed and strongly marketed to middle- and low-income households, with the focus on tombstones, coffins and airtime or groceries when a loved one dies.

The existing products range from provident or pension funds that are suitable for the formally employed sections of the economy, to retirement annuities with their tax benefits. This leaves low-income households or informally employed masses of people out in the cold. These are the same individuals who will likely seek state support in the medium to long term, heavily burdening the fiscus and future generations.

Whose problem is it to help the unbanked without savings?

The financial services sector needs to consider offering micro-pensions to enable access to financial products for those who are not included in the formal economy, as well as low-income households in the formal sector. These are typically pensions that are structured for individuals with irregular income, small amounts, and aimed at savers with limited financial literacy facing even lower chances of accessing conventional financial products to save for retirement.

The role of the state in this regard is to create not only a conducive environment, but policy encouraging the development of micro-pensions. After all, it is the state that will foot the bill of non-savers in the end. It is likely to be funded by the non-contributory pillar of pension schemes, further putting pressure on the fiscus in the next 30 to 50 years.

At the current R128bn cost of cash transfers, projections of how this could increase with worsening growth projections, heightened pressure on unemployment and increased inequality does not bode well for balancing fiscal pressures in the long run.

We also have inadequate savings to finance (or bolster) investments required to boost overall economic growth. As a country we remain and are reliant on highly volatile

We need savings levels to exceed 25% to boost investment levels that will in turn trigger improvements in both national income and capital formation in our economy.

portfolio investments to supplement our low savings. The importance of savings in an economy has received extensive empirical attention. Savings not only finances current account deficits, but also plays a mobilisation role by contributing towards capital formation in an economy. The contribution of savings to growth is constrained.

We need savings levels to exceed 25% to boost investment levels that will in turn trigger improvements in both national income and capital formation in our economy. With a downward spiralling savings rate and inadequate foreign direct investment, we are challenged by having to finance the current account deficit.

We also have to ensure that our future generations are financed and supported. This would not only change our behaviour towards savings but also improve households' savings levels.

Offering options beyond pension funds, provident funds or RAs

A pension system in a developing economy for the low-income and informal sector must be established and designed for both rural and urban communities. The pension system elements must include the ability to make contributions by the member as well as payments into the pension by others.

Payments should be able to be made by family members, even those in the diaspora, given the nature of family structures. Pension design must take into account the seasonality of income and cash, allowing for irregular or varying contributions or payments. The quantum of payments should also focus on the micro-income received by households in informal labour markets.

Incentives originally offered in the private sector, which have since dwindled, should be replicated in this system, where contributions are matched to incentivise workers to save. The government could match contributions and could also subsidise the development of systems or use existing networks and software in the private and public sectors. Innovation and technology are needed for investors in difficult-to-reach places. Using digital software and mobile payments to capture contributions and applications will become important.

The private personal schemes contributing to the second and third pillars have been restructured to exert a direct effect on the financial system. These are largely occupational schemes with large tax incentives, or incentivised voluntary savings through retirement annuities. This formal pension fund sector has been further developed post-1994, and, unsurprisingly, the coverage for the formally employed remains highly developed.

Employees who earn a low and/or inconsistent income and those without formal employment remain economically excluded without concrete social security policy and favourable tax credit frameworks that would aim to ensure the inclusion of pension benefits for the millions of South Africans whose retirement needs are not met, beyond the non-contributory pillar.

Savings are not automatic but can be encouraged with a regulatory framework incentivising contributions from all sectors of the population. Government should aim to incentivise low-income earners with a greater emphasis on a pro-poor tax legal framework. It is also necessary to ensure that the costs of contributing are monitored to prevent the high costs usually associated with management of pension funds.

Furthermore, steps must be taken to incorporate SA's unique social context. Family-based solutions may be a means to addressing the pension problem from a savings aspect. This is something that Treasury and industry may want to consider in future tax design. The current framework doesn't reward family-based savings, from extended family members or the mechanism of *umgalelo* (stokvels), a form of savings derived from monthly contributions where payment is rotated amongst the group members. This is ironic for a country known for the concept of *ubuntu.*

Micro-solutions must be offered and developed, responding to the constraints of the two-tiered emerging-market or developing economy.

Life insurance companies, pension fund managers and the wider financial services sector should be encouraged to do so. In time, the increased savings effect will trickle down to and grow the entire economy. ■

Nthabiseng Moleko teaches statistics and economics at the University of Stellenbosch Business School and is busy with a PhD in development finance.

Gallo/Getty Images

By Kevin Lings

RETIREMENT

Finding radical new ways to fund retirement

The traditional approach of saving for retirement by putting away cash is outdated. We need a different way of thinking about pensions if we are to ensure that members of the older generation live comfortably post retirement.

Providing people with a pension dates back to Roman military times when it was introduced as a way to reward soldiers. In 1881, Germany's Otto von Bismarck first proposed extending pensions to the working classes, making the official retirement age 70 – long after the average life expectancy of the time, which was 40 for men and 56 for women.

In the US, the Social Security Act passed in 1935 set the official retirement age at 65, seven years after the average life expectancy at the time of 58 years.

While the notion of pensions is a concept created abroad and long ago, its principles have become entrenched in South Africa over time, even though the country has a different socio-political history and demographic.

There are just 11.4m South Africans out of a population exceeding 53m in formal employment. According to the World Bank, only 6% of South Africans can afford to retire comfortably. South Africans who are financially able to do so may retire as early as 55, while companies can insist people retire at age 65 (or even younger depending on their employment contracts).

It is clear we need a radically different way of thinking about pensions in SA if we are to ensure our older population lives comfortably into old age.

According to the World Bank, only

6%

of South Africans can afford to retire comfortably.

Leveraging property

One approach could be the use of reverse mortgages to fund retirement.

Building new houses is one of the most effective ways to grow an economy. The expertise required draws on every level of skill within an economy from engineers, quantity surveyors and financiers to plumbers, electricians, brick layers and other labour.

US statistics show that residential investment, including building new family homes, remodelling and production of manufactured homes, contributes between 3% and 5% of total GDP. In SA, this percentage was a mere 1.8% in 2016.

Using the reverse mortgage concept you could rather use your pension allocation to pay off a home loan, providing you with a home to live in and an asset you can borrow against to give you an income in retirement.

In the US, Australia and Canada a reverse mortgage is a type of home loan for older homeowners that allows them to borrow against the value of their property without having to pay monthly instalments. When they sell the property, they repay the money they have withdrawn from their mortgage, or if they die, the lender sells the home to recover the money that was paid out. In the meantime, homeowners can live on the equity built up in the property's value and only have to pay property taxes and homeowners' insurance.

In a South African context, and applied in a slightly different way, "mortgage-funded retirement" could mean you enter the housing market when you start working. Instead of paying contributions into a retirement fund, you could redirect these savings into a bond.

At retirement age, you would have a fully paid-for house, which has grown by market value for around 40 years. You could then approach a lender who would pay you monthly instalments until you die, which would give you an income to live off. The lender would take ownership of your house on your death.

A house bought in SA in 1977 for R100 000 would be worth R6.1m today. That represents an annual compound growth rate of 10.82% for 40 years.

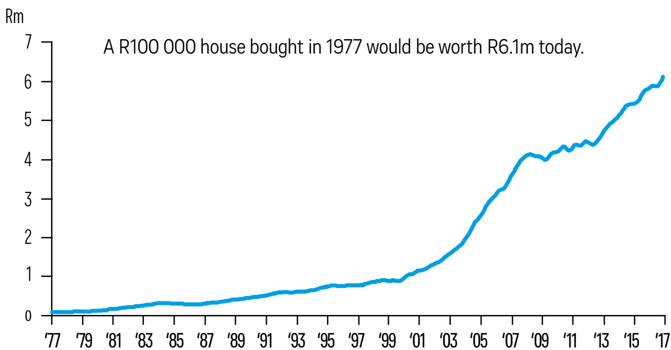
Benefits of a mortgage-funded retirement

The benefits of a mortgage-funded retirement approach are numerous. Typically, we work for several years to build a capital base before buying a property. By buying a house when you start working, you benefit from, on average, seven to 10 years of additional property growth. The approach is no different from general retirement advice of saving as soon as you start working to benefit from compound growth.

By formalising a structure that allows you to access 100% bonds straightaway, institutions and government will facilitate greater inclusivity in property growth while stimulating the economy. Demand for new housing will increase exponentially, significantly boosting GDP growth and lowering unemployment.

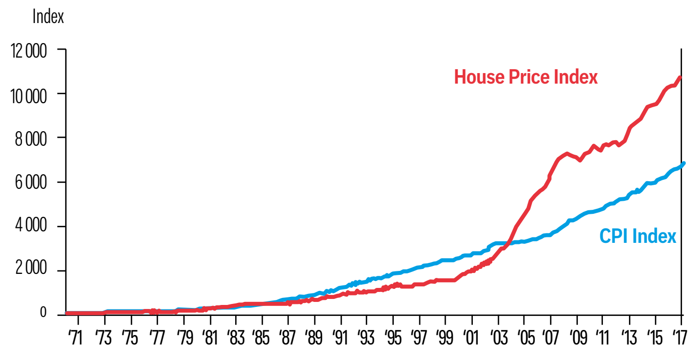
Saving into your own property is far stickier than cash-based retirement funding. One of the biggest threats to ensuring people have enough retirement savings, is ensuring

AVERAGE SOUTH AFRICAN HOUSE PRICE SINCE 1977



SOURCE: Stanlib

AVERAGE SOUTH AFRICAN HOUSE PRICES VS INFLATION



SOURCE: Stanlib

they don't withdraw their savings when changing jobs.

House building has been used as an economic stimulant through history. In the early 1930s, Britain recovered impressively from a double-dip recession that ended in 1932 with growth exceeding 4% a year. Its "cheap money policy" led to an increase in the number of houses built by the private sector from 133 000 in the early 1930s to 293 000 by 1935.

Property is widely used for its inflation-beating returns. Over a 40-year period, the only time the SA House Price Index underperformed the CPI Index was during the extremely high interest rates of the early 1990s. In 1990, interest rates peaked at close to 19%. In the past 13 years property has significantly outpaced inflation.

Property ownership is a widely understood and aspirational concept in SA. Linking formal retirement savings to a physical property – one that you live in for many years – may be a more successful way of structuring retirement.

Tax-free retirement income for mentorship

Another radical approach to retirement considers our increasing life expectancy. At age 65 (the "normal" retirement age in SA) many individuals are not emotionally or financially ready to retire.

SA has the dual challenge of a high number of youth who need jobs but don't have skills, and older people approaching retirement who cannot afford to retire.

Contrary to the perception that older workers are laggards in business, a University of Sydney Business School study found that the most innovative companies are those where the age of employees doesn't matter.

We could solve both issues by creating mentorship roles for older employees to share their skills and knowledge with younger employees. Instead of receiving a salary, they would be compensated through a tax deduction on their retirement income.

Paying zero tax on retirement income can extend your retirement capital by a decade or more, which is equivalent to having at least 30% extra in savings at the point of retirement.

To ensure retirement savings grow in line with inflation, you really only have two tools at your disposal: generate enough investment performance, or reduce your costs.

Paying zero tax on retirement income can extend your retirement capital by a decade or more, which is equivalent to having at least 30% extra in savings at the point of retirement.

The truism "if you keep doing the same things, you'll keep getting the same results" has never been more relevant.

Retirement globally is a challenge most governments, businesses and people are grappling with and it is only set to get worse over time. Traditional approaches, including retirement ages and pension funding, haven't kept pace with changing longevity and demographics.

SA's demographics are different to global developed markets where birth rates are low (1.86 live births per 1 000 of the population per year for the US and 1.42 for Japan). SA's birth rate of 2.36 brings its own challenges, but mostly it brings opportunities to approach retirement with new thinking.

With an average age of just 26.8, SA's population may be young now but it will age. When today's newborns reach age 30, the country will have an estimated population of 65m people. If in 30 years' time 94% of South Africans are still unable to retire comfortably, we would have failed to radically rethink our approach to retirement.

The financial services sector is in a unique position to be a catalyst for the conversations needed to address retirement planning. As with any form of retirement planning, the sooner we get started, the better. ■

Kevin Lings is chief economist at Stanlib.

By Lionel Martellini

GOAL-BASED INVESTING

Tailoring products for individuals

Technology can play an important role to develop mass-customised products for investors.

With the shift from defined benefit to defined contribution pension systems and the need to supplement retirement savings via voluntary contributions, individuals are increasingly responsible for their own saving and investment decisions. This global trend poses a substantial challenge as individual investors suffer from behavioral limitations and typically lack the expertise needed to make educated investment decisions.

Addressing this challenge requires a whole new investment paradigm, relying upon liability-informed investment decisions rather than investment decisions based on conventional asset-only investment return or capital-based measures of performance. Meeting the retirement investing challenge emphasises the importance of individualised, or at least mass-customised, investment solutions, tailored to meet the need of specific individuals or sufficiently homogenous groups of individuals.

While such objectives might have seemed out of reach a few years ago, recent advances in risk management technologies and distribution through robo-advice channels have made them possible as part of a major paradigm shift impacting how the industry will function and the value it will add.

Towards improved retirement investment solutions

Currently available investment options hardly provide a satisfying answer to the retirement investment challenge. Most individuals are left with strategies not engineered to generate the kind of *target* replacement income they need in retirement, while securing *minimum* levels of replacement income.

A new investment framework has emerged, labelled goal-based investing (GBI) in individual money management (see Deguest et al, 2015), where investors' problems can be fully characterised in terms of their lifetime meaningful goals, just as liability-driven investing (LDI) has become the relevant paradigm in institutional money management, where investors' problems are broadly summarised in terms of their liabilities.

The benefits of switching to a dynamic goal-based investing process are extremely substantial when measured in terms of improvement in probability to achieve meaningful goals. For example, the probability to reach target levels of replacement income can be increased for reasonable parameter values by a factor up to 100%, e.g., taking them from 35% to 70%. (See Martellini and Milhau, 2015).

From a principle standpoint, the framework is well-grounded in asset-pricing theory and builds upon a comprehensive and holistic integration of the three forms of risk management: hedging for efficiently protecting minimum levels of replacement income; diversification for efficiently harvesting risk premia as required to reach target levels of replacement income; and insurance for efficiently combining the dual requirements of downside protection and upside potential.

> The probability to reach target levels of replacement income can be increased for reasonable parameter values by a factor up to 100%, e.g., taking them from 35% to 70%.

This stands in contrast with existing products or approaches used in institutional or individual money management, which are only based on selected risk management principles.

Mass customisation versus mass production

Mass production (as in product) has happened a long time ago in investment management through the introduction of mutual funds and more recently exchange-traded funds. The new frontier in retirement investing is mass customisation (as in customised solution), which by definition is a manufacturing *and* distribution technique combining the flexibility and personalisation of "custom-made" with the low unit costs associated with mass production. The true challenge is indeed to find a way to provide a large number of individual investors with meaningful dedicated investment solutions.

Different investors have different goals, as discussed above. Therefore the safe goal-hedging building blocks should be (mass) customised. Besides, the allocation to the safe versus risky building blocks should also be engineered to secure each investor's *essential* goals (e.g. *minimum* levels of replacement income) while generating a relatively high probability to achieve their aspirational goals (e.g. *target* levels of replacement income).

That mass customisation is the key challenge has been recognised long ago, but only recently have we developed the actual capacity to provide such dedicated investment solutions to individuals. There are two distinct dimensions of scalability; scalability with respect to the cross-sectional dimension (designing a dynamic strategy that can approximately accommodate the needs of different investors entering at the same point in time); and scalability with respect to the time-series dimension (designing a dynamic strategy that can approximately accommodate the needs of different investors entering at different points in time). Good news is that financial engineering can be used to meet these challenges.

Addressing the mass customisation challenge will be facilitated by the convergence of powerful forces. On the one hand production costs are strongly reduced, due to the emergence of passive alternatives to active managers for efficient risk premia harvesting. On the other hand, distribution costs are bound to go down as the trend towards disintermediation is accelerating through the development of robo-advice initiatives.

Risk management, defined as the ability for investors, or asset and wealth managers acting on their behalf, to efficiently spend their dollar and risk budgets to enhance the probability to reach their meaningful goals, will play a central role in an industrial revolution that will eventually lead to scalable, cost-efficient, investor-centric, welfare-improving retirement investment solutions. ■

Lionel Martellini is professor of finance, EDHEC Business School, director at the EDHEC Risk Institute and senior scientific adviser at ERI Scientific Beta.

By Anne Cabot-Alletzhauser

RETIREMENT

Should retirement savings be SA's top priority – or could there be a better model?

Singapore's Central Provident Fund allows its citizens to be flexible in how they manage and use their savings. What can South Africa learn from such a system?

Consider this: during the 40-some-odd years that an individual is employed, most of their interactions with their benefits simply follow a format that has been conceptualised by another party (the boards of trustees or the employer). This must in turn solve for a broadly generalised employee need that may or may not represent the individual's own needs.

As default options become more widely employed, decisions around employee benefits are tending to fall into the "set and forget" mode of financial engagement. It's not surprising then that employees are neither invested emotionally in the process nor any more financially savvy because of it.

But what if we completely reframed the question – and in so doing, reframed the potential answers?

What if we said to employees: "We want you to engage in a long-term savings programme. It's good for you, your families and the economy. But let's widen up the opportunity set for you as to how you could use these savings for things that are more relevant to your life at each step in your financial cycle."

We believe individuals would start paying more attention then. More importantly, by shifting our focus to developing higher levels of fiscal responsibility and financial knowledge, this would surely have the knock-on effect of alleviating a dependency on government?

In grappling with these questions, we found one other country that has successfully tackled exactly these issues.

Singapore: A case in point

Singaporeans may seem worlds apart from South Africans and the types of trials that have affected us over the last few generations, but there's one aspect in Singapore's economic success story that is worth noting. Just before Singapore achieved self-government in 1959, the country looked set to introduce a social insurance or public assistance plan similar to a number of other post-colonial government-funded social security systems. But wiser minds prevailed, and the view emerged that these limited government resources could be better applied elsewhere. Retirement savings were simply not the highest priority for an emerging economy fiscus, the Singaporean ministry of finance observed in 1964.

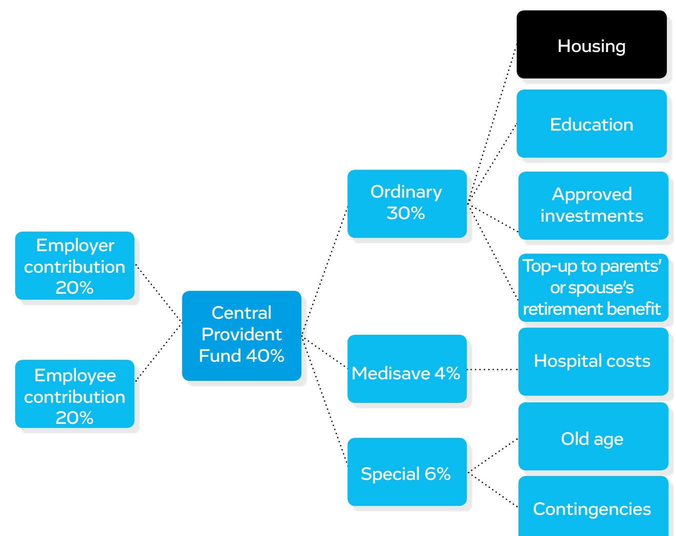
Singapore made the conscious decision that it was not in their interests to become a welfare state. As such, the central tenet of their compulsory savings vehicle, the Central Provident Fund (CPF), was that "the individual was responsible for determining how best to secure the future of their financial well-being" . That meant that, although both saving and preservation in the fund was compulsory for citizens of Singapore until the age of 55, there was still an extraordinary amount of latitude given to individuals on how best to apply those funds to secure their financial protections.

In the CPF individuals can determine whether to use their savings to fund their housing, their (or their children's) further education, their health (with options for basic medical coverage, additional hospital coverage for emergencies and post-retirement frailcare demands), their investments, their income protections, a top-up of other family members' retirement or medical coverage, or ultimately, longevity insurance.

What was particularly bold about the Singapore model is that while it acknowledged that saving for retirement was indeed important, it was not seen as the *only* important priority for a developing economy or the citizens of that economy who were still battling to acquire the basic necessities to maintain a viable financial existence.

At first glance, any compulsory savings model that

CENTRAL PROVIDENT FUND – SINGAPORE



SOURCE: Central Provident Fund

demands 40% of one's income would seem untenable. But consider exactly how much an individual already allocates to housing, education, medical aid, retirement and risk protection and that allocation is well in excess of 40%. The Singapore model simply argues that by managing these savings requirements collectively and cost efficiently, one has a far higher probability of being able to cover those collective demands.

Today Singapore has one of the highest savings rates in the world (24%), ranking just behind China and India; it has a credit default rate that has remained constant between 0.12% and 0.15% for some time; and it ranks number one in the State Street Center for Applied Research 2014 *Study on Financial Literacy.*

Perhaps the greatest innovation of the CPF is the recognition that for individuals to really engage with a long-term savings plan, they need to be able to leverage their account resources at strategic points along their financial life cycle. These funds could ultimately be used for a select range of asset-building and capital development purposes in the course of an individual's financial life cycle – while at the same time ensuring that there are minimum reserves to fund post-retirement income and medical aid needs.

Would a Singapore-like model work for South Africa?

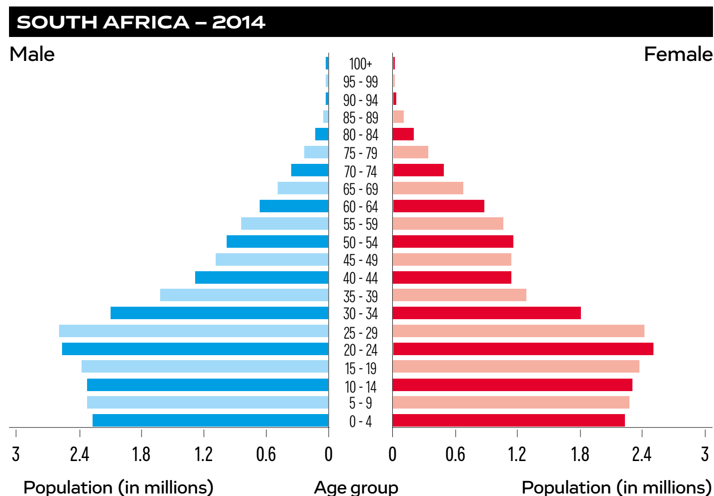
Should the system necessarily be a role model for SA? Probably not, given its current form. To begin with, this is a 100% government administered initiative. At this point in SA's evolution there are too many other priorities on government's plate to undertake a project this ambitious. But there is nothing to stop the private sector and employers in particular from providing their employees with something that closely approximates this "guided architecture" for financial planning for their employees.

The reality of SA is that we do not have an old-age problem. Our demographic profile is distinctly different to the Western and even Asian economies. SA has a youth problem. And unless we can find a way to redeploy savings of families to tackle the challenge of social mobility, forcing people to place a primary focus on saving for retirement will be a futile exercise.

But, if we could all agree that it is the *spirit* of what this model is trying to address that is powerful and not get caught up on trying to emulate the *details* of their programme, then we believe there's much of the essence of their model that we could begin to capture through our private occupational funds.

Currently South Africans are retiring with 32% replacement ratios. This is a function of the fact that as employees move from one company to the next, only 8% appear to preserve even a portion of their previous savings, according to the 2015 *Alexander Forbes Member Watch Survey.* Until we sort out the issues around what needs to be mandatory in our long-term savings programme, this will continue to be the norm.

For individuals to really engage with a long-term savings plan, they need to be able to leverage their account resources at strategic points along their financial life cycle.



We can engage with this reality in the following ways:

- We can challenge whether securing a 75% replacement ratio really is the most critical target when there are any number of ways that individuals can secure a stable retirement environment above and beyond that explicit income.
- We can extend an individual's commitment to their long-term savings programme by enabling them to solve for other imperatives in addition to retirement income.
- Provision could be made into an emergency savings vehicle that allows them to dip into reserves before being forced to cash in their funds.
- What our members really need are products and solutions that actually teach them how to get from point A to point B in their financial journeys. It's not enough, for example, to offer people options such as pension-backed housing loans. The real challenge for first-time asset owners is not so much the funding as it is learning how to manage the ongoing financial responsibility of owning an asset.

Bottom line: An effectively structured benefits programme could prove to be a powerful framework for creating a targeted financial planning tool that serves the interests of all South African employees.

How far could we possibly push our current employee benefits framework and how close could we come to capturing some of the Singapore success story? We think further than you might first imagine. ■

Anne Cabot-Alletzhauser is head of the Alexander Forbes Research Institute.