HEALTH OF THE RETIREMENT FUND INDUSTRY

Agenda

01 STATE OF RETIREMENT FUND INDUSTRY

02 INVESTMENT HEALTH

03 PRESCRIPTION

04 INVASIVE INTERVENTION- RETIREMENT REFORM

CRITICAL BUT STABLE

- **2022** score of 54.7- South Africa- placed 38th out of 47, **2023** - 54 a slight drop, and sub-category scores of 44.2 for adequacy, 49.1 for sustainability, and 76.6 for integrity- **2024 Score 49.6** 34.7 48.0 75.7

- **2023**, the **Mercer CFA Institute Global Pension Index –** C grade, listing *"… some good features but also has major risks and/or shortcomings that should be addressed; without these improvements, its efficacy and/or long term sustainability can be questioned*" **2024** D- Grade listing system that has some desirable features but also has major weaknesses and/or omissions that need to be addressed; without these improvements, its efficacy and sustainability are in doubt

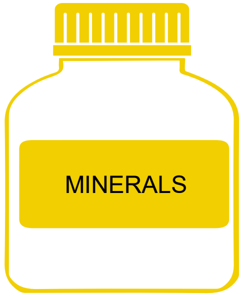
- average retirement age - 60, and less than 10% have enough savings or pension to retire comfortably. 69% have not planned for retirement. It's clear that even for those who are able to contribute to their retirement, South Africa's retirement fund system is failing to provide for the needs of most who depend on it.

- 5.2 million South Africans aged 60 and older, 3.8 million (73%) are recipients of social grants and 2% who were retirees confirmed they had already ran out of funds and are thus either relying on state or family support. ***Marginalised Groups Series VI: The Social Profile of Older Persons, 2017–2021.***

INVESTMENTS

Conundrum- Is there Stabilty and Growth amidst Volatility

- REGULATION 28 AND ESG



INVESTMENT POLICY STATEMENT

5.5 %pa ABOVE INFLATION

EXPERIENCED BOARD

REPUTABLE ASSET MANAGERS MARKET PERFORMANCE

PRESCRIPTION

Prevention is better than cure

- ADDITIONAL VOLUNTARY CONTRIBUTIONS IF POSSIBLE

- DEBT MANAGEMENT, SPENDING HABITS LIFESTYLE CHOICES, INVESTMENT, SOURCES OF INCOME, INVESTMENT

- DO NOT WITHDRAW OFTEN I.E. TWO POT

- UPON RETIREMENT TRY NOT TO TAKE A LUMP SUM

- GAIN EDUCATION – LIFE ANNUITY/ LIVING ANNUITY - PRESERVATION

RETIREMENT REFORM WHY?

- **REPLACEMENT RATIO**
- **LOW INCIDENCE OF PRESERVATION AND ANNUITISATION**
- **ECONOMY**
- **SAVINGS SQUANDERED OR LOST SOON AFTER RETIREMENT**

Some Medicine

In the form of Regulations

- COMPULSORY ANNUITISATION (2021)
  - Full commutation on retirement phased out
  - Only one-third commutation
  - Existing benefits and over 55s grandfathered
  - Mostly on provident funds

- TWO POT DISPENSATION
  - Savings “pot” seeded with up to R30 000 and one-third of future contributions
  - Emergency access when needed instead of resigning an encashing entire benefit
  - Evidence suggest benefit not used for emergencies

- COMPULSORY PRESERVATION
  - Retirement “pot” no access prior to retirement
  - Must be used for a pension
  - Retain in fund or transfer to new fund

The dosage

Different funds, different application

- DC funds are relatively straight forward
  - Money pots
  - Split of vested (2), savings and retirement
  - Even for public sector DC funds

- DB funds
  - Think of “service” pots
  - BUT in some cases (GEPF) accruals may change going forward (gratuity/annuity)
  - Other funds may have simpler way of splitting service (1/3 and 2/3)

- Contra-indications
  - Unique circumstances – single members, impaired life expectancy
  - Expected investment return and benefit accumulation within the fund
  - Other benefits forfeited (medical aid subsidy)

A single dose

May not be enough

- Over time the retirement outcome will be better, but for now

  - Vested benefits subject to previous regime
  - De minimis provisions likely to allow encashments retirement pots
  - The attraction of drawing one’s savings pot
  - Appreciation of the marginal tax rate applied on savings benefits vs retirement allowances
  - Time in the market matters

THANK YOU