THINK WORLD CLASS

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Securing retirement prospects for public sector employees

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Due to the tough economic conditions we are experiencing globally, the National Treasury in South Africa has had to reduce the public sector wage bill to manage the fiscus. While the intention of downsizing is to ensure the sustainability of these enterprises by reducing its cost base, the effect on the retirement security of the impacted public sector employees is significant. Over the past few years, we have seen restructuring in the public sector.

Here are a few examples:

- South African Airways (SAA) had one of the most brutal reductions in their workforce, from 4 700 employees to around 1 000. Approximately 3 041 employees accepted the voluntary severance packages, and the remainder were retrenched. This reduction in workforce cost R2.2 billion to pay for severance and retrenchment packages.
- Between the end of 2018 and the end of 2022, Telkom cut its employee count from 18 000 to 12 000 which, in 2021 alone, cost the company R271 million in voluntary service packages. Dark days are still ahead for the state telecoms group as it announced, in February 2023, that it has entered a formal retrenchment process that will affect 15% of its remaining workforce.
- The South African Post Office joined the ranks of other state-owned enterprises that have planned restructuring. It is set to retrench 6 000 workers, with about 41% of its current workforce anticipating being laid off.

Why thousands of people are losing their jobs

With over 1.2 million employees, the South African public sector is the largest employer within the country. Minister of Finance Enoch Godongwana recently discussed downsizing this workforce to ease upward pressure of the wage bill. To put this into perspective, the South African pension industry is worth an estimated R4.6 trillion, with R2.3 trillion attributed to the Government Employee Pension Fund (GEPF), which is South Africa's biggest pension fund.

Retrenchments and forced early retirement are often the mechanisms used to enable cost-cutting. These events can be psychologically jarring for employees, often leading to many making panicked financial decisions. For employees faced with retrenchment, or where early retirement affordability becomes a concern, it's common to go through their own cost-cutting exercises, including cancelling their risk policies and reducing spending. If they are unable to secure alternative employment and cashflow becomes a concern, they may consider cashing out their retirement fund benefits when exiting their employer retirement fund and taking partial or full withdrawal from their existing preservation funds. The reality is that without financial education and planning, the consequences of these decisions can be devastating.

The role of the financial services industry

This employment dilemma begs the question: how can the financial services industry help ensure stable retirement prospects for these employees?

Fortunately, the financial services industry can play a pivotal role in helping public sector employees navigate through their retirement planning decisions. We believe that a holistic approach is required to transform the retirement and savings challenges, starting with financial literacy.

Preparedness through financial literacy

Saving for retirement meets a need that is not immediately tangible and located sometimes far into the future. Life-changing events like retrenchment are an unexpected risk, which are often ignored. When these risks become a reality, there is a sudden and urgent need for financial planning, and unfortunately, it's often too late at the time of the eventuality.

Financial literacy and wellness are key to transforming South Africans' retirement outcomes. They can have a positive influence in empowering individuals to start their financial planning journey early. Here are four ways for financial services companies and intermediaries to support clients to ensure they are better prepared for the future:

- Create digital behavioural tools and calculators that project results in rand value to help people make better decisions. These could include tools that help clients calculate how much they need for retirement and how increasing their contributions could impact their post-retirement life positively.
- Conduct employee benefits workshops and engagement sessions in the public sector, with a specific focus on retirement planning.
- Find ways to inform clients promptly of trends, regulatory amendments, and retirement reforms, and how to respond to them. These trends and regulatory changes often have a profound impact on retirement savings, tax efficiency, and the income that they eventually will need to draw during retirement.
- Partner with the public sector and champion initiatives that focus on promoting financial literacy and inclusion.

Although South Africa has a well-developed financial services sector, we still face significant challenges in transforming the retirement and savings landscape. However, we are starting to see deeper engagement about retirement security issues. We are seeing shifts in client engagement and, generally, there is a move by clients towards addressing their financial wellness. Therefore, we must stay committed to designing a value proposition, along with financial intermediaries, that centres on financial literacy and wellness as part of the financial planning journey. This approach could help empower individuals to make better savings decisions for their own lives and, potentially, for generations to come.

Holistic financial planning with flexible hybrid options

There is a need for financial strategies that offer a comprehensive approach to the financial risks that clients face. A financial plan should have robust, built-in features to successfully manage clients' affairs, especially when clients are facing the harsh realities of retrenchment. Helping them avoid cashing out retirement savings should be a financial planning priority.

Offering financial planning services in the public sector comes with its own unique challenges, and deep knowledge of this sector is critical to build relationships and ensure successful financial planning outcomes for public sector clients. Financial advisers in this sector could help employees in this sector by:

- partnering with financial services companies that have a solid strategy and established partnership with public sector entities, specifically around financial planning.
- ensuring that you have a clear financial planning value proposition that meets the specific needs of public sector employees.
- shifting focus from just the big-ticket risk products like funeral policies and life cover to a more holistic approach, which includes long-term saving, and income and retirement security.
- paying attention to factors like medical aid costs (and how these impact on retirees), debt management, and income protection solutions to encourage public sector employees to be well prepared for the future and at any stage of life.

Solutions that make financial and retirement planning easier

If the objective ultimately is to help clients avoid the trap of cashing in their retirement savings when faced with retrenchment, then solid financial planning is key, with solutions that meet the needs of clients at retrenchment.

7 Ways that financial advisers can help employees in the public sector:

1. Preserve. Transfer retirement fund capital into a preservation fund.
2. Educate. Encourage clients to claim from the Unemployment Insurance Fund.
3. Protect. Encourage income protection cover.
4. Insure against retrenchment. Consider insurance where premiums are waived in the event of retrenchment.
5. Manage debt. Look into credit insurance that pays off existing debt at retrenchment.
6. Build more savings. This includes emergency and tax-free savings.
7. Blend solutions. Hybrid solutions are the future of retirement planning. At retirement, pension fund members traditionally have two options – to purchase a guaranteed life annuity or an

investment-linked living annuity. The two are very different in terms of the flexibility that the client enjoys and the risks they face. The days of choosing one over the other or being locked into a single retirement income solution are over. Given that a client could be better served by a life annuity at certain stages in retirement and by a living annuity at others means that a combination of the two would improve post-retirement planning outcomes significantly. Retirement solutions that allow clients to incorporate aspects of both life and living annuities make the most sense and significantly improve the income prospects for retirees. Blended annuities allow for flexibility to allocate between an investment-linked income and a guaranteed one, and to switch further amounts after retirement.

You can’t put a price on financial literacy

Investing in widespread financial literacy is a win for all. By actively engaging with and educating individuals about their retirement, the financial services industry has a significant opportunity to design and develop innovative and sustainable solutions that resonate with all clients’ needs at any stage of their lives.

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