

Complexity distorts the retirement discussion



The retirement savings message used to be a simple one; start investing towards a goal early in life, invest over the long-term, and always invest conservatively for retirement. However, the current retirement and long-term investment landscape is, unnecessarily, characterised by complexity. This has the potential to throw a spanner in the works when it comes closer to retirement.

This is an issue which has been threatening to have a significant impact on the industry, but it is now coming to the fore as government is stepping up its plans to implement significant reforms in the industry.

For whatever reason, be it the misguided perceptions that complex products offer greater value, or that complexity is a key differentiator in a cluttered and competitive market, the fact of the matter is that complexity causes confusion. It also comes at a cost and it is therefore the investor who ultimately loses out.

Window dressing complexity

While window-dressing multi-tiered products and complicated fee structures, we lose focus. This window-dressing often includes hidden portfolio-based multi-manager fees, asset-based management and administration fees, and value-added reward and incentive programmes.

While the unnecessary risks associated with performance-based investing may seem like they add value, these elements merely complicate the discussion around what should, in essence, be a simple decision-making process: the how and where to invest your money for retirement.

Transparency agitator

Further compounding the issue is the lack of transparency in the industry, which often leaves investors unsure of what they are getting in return for their monthly contributions.

And then there are the associated costs that this degree of complexity brings with it, which often does nothing more than erode investment returns.

This flies in the face of prudent retirement planning advice, the sole aim of which is to ensure investors create, and preserve, wholesome personal wealth that will sustain them once their active income-earning years are behind them.

The hard task

Faced with these challenges, simplifying the retirement dialogue, in our view, needs to start at the product development level. By removing product and price complexity, the industry will promote a shift in dialogue; one where real returns become the focal point of the discussion between financial advisers and investors as far as retirement planning is concerned.

The time and effort that currently goes into basic product selection due to the inherent complexities is inefficient and unnecessary. Only once retirement products themselves revert to a simpler form, will investors and savers be able to cut through the clutter to make more informed comparisons. Then, with the assistance of their advisers, they will be better able to select the best retirement option based on their specific goals and needs and the associated costs.

Reframing remuneration

In addition, reframing the manner in which advisers are remunerated could further

assist this process. Annuity-based remuneration fees, not the lump sum commission payments that have become the norm, would promote continued engagement with clients.

This would ensure that an adviser's role would shift back to an advisory capacity, in addition to the role of salesperson at the point of fund inception. This creates a platform for on-going education, which helps empower consumers with greater knowledge to further simplify the message of investing for retirement.

Furthermore, reducing complexity in this manner will not only help to demystify the messaging around saving for retirement, it also has the potential to benefit the industry at large. At the end of the day greater transparency and simplified products and messaging, as well as lower costs, will help create a more open market, one where people are more inclined to participate by saving and investing in long-term financial products. This is what the industry needs to ensure - industry sustainability and prosperity - not more complexity.



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