



Retirement savings - a simple solution

In the drive for profit, companies that offer retirement solutions have made saving for retirement unnecessarily complicated and costly. National Treasury addressed this issue in its technical discussion paper *Charges in South African Retirement Funds*, and argued that reducing the costs associated with retirement savings would have the effect of increasing net retirement savings.

Research shows that the retirement crisis in South Africa is far from abating. Many South Africans are experiencing poverty in retirement, with only about 6% of South Africans having accumulated enough savings to retire comfortably. Government is rightly concerned, and that concern should also be shared by the industry, employers and employees alike.

Taking charge

There is a great deal that can be done to change the cost structure associated with retirement savings, particularly regarding umbrella fund structures, that will make it more appealing and cost effective. For instance, many funds are unnecessarily complex as fund managers try to differentiate themselves to attract business, but this is often to the detriment of the retirement saver.

Administrative costs should also be an explicit cost per member that is recovered from monthly contributions. However, numerous umbrella funds charge asset-based administration fees, which increase in relation to the amount saved. This penalises those who save more, which makes no sense as the industry should assist in promoting retirement reform in line with Government's mandate, particularly by reducing the costs associated with retirement saving.

Read the fine print

These costs are also not explicitly shown in quotations. They are in the documentation

somewhere, but are not always clear. This lack of transparency is a major concern, and is a key area that requires immediate reform.

These changes would go a long way to increasing the affordability of umbrella funds, ensuring more people have access to efficient retirement savings and a broader spectrum of employee benefits. It is also often difficult for smaller companies to carry the increased payroll overheads associated with umbrella fund investments, particularly in the current economy. The deductions on staff salaries can also burden already tight household budgets. The industry needs to look at ways to make this form of investing more affordable, such as a tax rebate for smaller employers.

Despite these shortcomings, umbrella funds already offer great benefits and value.

Taking a gamble

Of concern, however, is the continued use of retirement savings products such as member choice. The practice of offering member choice, in which members of retirement funds choose the assets in which their savings are invested, should be discontinued in the best interests of the public.

People who opt for member choice pay a substantial premium for it because it costs retirement savings providers more to administer individual choices. However, because the cost for the member choice is levied from the retirement savings this additional fee is not transparent, and most people do not realise that this cost is actually eroding

their ultimate retirement savings.

In addition, most people are not trained to understand the various financial instruments available to them or the financial markets in general.

Therefore, because they are not industry professionals, they tend to be heavily influenced by sentiment and make irrational decisions about investment choices. As a result, they try to time the market but do so after the markets have already moved. In other words, they increase their exposure when the instruments are expensive and decrease their exposure when the instruments are cheap - exactly the opposite of what should be done.

The vast majority of people who choose member choice are not actively using it and are simply defaulting to the standard portfolio of assets offered by the retirement savings provider.

They, however, are the lucky ones. While

they are paying unnecessary fees, at least they are not gambling with their retirement savings.



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