What is the best way of extending retirement coverage to the six million employed South Africans who do not have access to an occupational retirement plan?

D. T. Chamburuka and C. Aitchison
Agenda

1. Setting the context
2. Government Proposals
3. Worldwide models
4. What are employees saying?
5. Moving on
Agenda

1. SETTING THE CONTEXT
3. Worldwide models
4. What are employees saying?
5. Moving on
Employees not belonging to an occupational retirement fund have a bleak outlook on their financial readiness for retirement.
Employees earning less than R11 999, and female employees are significantly more likely to be dissatisfied.

Employees who currently own a retirement annuity are significantly more likely to be satisfied.

- Not at all satisfied: 52%
- Slightly or moderately satisfied: 32%
- Very or completely satisfied: 16%
Financial readiness for retirement

- Below R12 000:
  - Not at all satisfied: 66%
  - Slightly satisfied: 12%
  - Moderately satisfied: 24%
  - Very satisfied: 13%
  - Completely satisfied: 14%

- Above R12 000:
  - Not at all satisfied: 39%
  - Slightly satisfied: 24%
  - Moderately satisfied: 12%
  - Very satisfied: 13%
  - Completely satisfied: 14%

- No RA:
  - Not at all satisfied: 61%
  - Slightly satisfied: 12%
  - Moderately satisfied: 18%
  - Very satisfied: 17%
  - Completely satisfied: 19%

- Have RA:
  - Not at all satisfied: 24%
  - Slightly satisfied: 17%
  - Moderately satisfied: 23%
  - Very satisfied: 17%
  - Completely satisfied: 19%

- 18-30 years:
  - Not at all satisfied: 48%
  - Slightly satisfied: 15%
  - Moderately satisfied: 20%
  - Very satisfied: 11%
  - Completely satisfied: 6%

- 31-39:
  - Not at all satisfied: 52%
  - Slightly satisfied: 10%
  - Moderately satisfied: 14%
  - Very satisfied: 10%
  - Completely satisfied: 13%

- 40+ years:
  - Not at all satisfied: 55%
  - Slightly satisfied: 15%
  - Moderately satisfied: 22%
  - Very satisfied: 13%
  - Completely satisfied: 7%

- Female:
  - Not at all satisfied: 60%
  - Slightly satisfied: 10%
  - Moderately satisfied: 19%
  - Very satisfied: 6%
  - Completely satisfied: 5%

- Males:
  - Not at all satisfied: 42%
  - Slightly satisfied: 18%
  - Moderately satisfied: 18%
  - Very satisfied: 13%
  - Completely satisfied: 9%
Almost 1 in 5 employees plan to supplement their retirement funds by looking for another job.

Which two things do you think you can do differently to make you feel more secure and satisfied when you retire?

- 1 in 10 employees display a sense of hopelessness regarding their current financial situation and readiness for retirement.
Older employees plan to continue working well past the general retirement age.

<table>
<thead>
<tr>
<th>Age you plan to retire:</th>
<th>Current age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18-30 years</td>
</tr>
<tr>
<td>Under 50</td>
<td>12%</td>
</tr>
<tr>
<td>51 – 54</td>
<td>10%</td>
</tr>
<tr>
<td>55 – 60</td>
<td>34%</td>
</tr>
<tr>
<td>65</td>
<td>27%</td>
</tr>
<tr>
<td>66</td>
<td>1%</td>
</tr>
<tr>
<td>67</td>
<td>0%</td>
</tr>
<tr>
<td>68</td>
<td>2%</td>
</tr>
<tr>
<td>69</td>
<td>0%</td>
</tr>
<tr>
<td>70</td>
<td>8%</td>
</tr>
<tr>
<td>Older than 70</td>
<td>6%</td>
</tr>
</tbody>
</table>

At what age do you plan to retire?

**RA owner**
Question time
Agenda

1. Context
2. Government Proposals
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Models differ in terms of:

- Pillars of retirement savings affected
- Benefits to be provided
- Contribution levels
- Who should administer the fund: government or private sector?
- Who should be covered?
- Compulsory versus auto-enrolment
Auto-enrolment vs compulsory saving

- Employee choice
- Coverage
- Need for engagement
Agenda

1. Context
3. WORLDWIDE MODELS
4. What are employees saying?
5. Moving on
Worldwide models of extending coverage

The four models for compulsory retirement savings and auto-enrolment investigated for their appropriateness for SA

- California Secure Choice Retirement Savings Programme.
- Australian Superannuation Guarantee
- New Zealand Kiwi Saver
- UK Auto-enrolment
A well designed retirement system should consider

- The level of coverage achieved
- The adequacy of retirement benefits
- Financial sustainability and affordability to contributors
- Cost efficiency of the retirement system
- The level of security of benefits in the face of different risks
Which model results in more assets in SA?
ASSETS PROJECTION METHODOLOGY

1. Assumption used
- Average salary growth of 6% each year
- Formal employment grows by 2% each year
- Average annual investment rate of 9% each year
- Annual management fees as a percentage of assets of 1.5%

2. Asset projection formula
\[ A_n = A_{n-1}(1+r)(1-f) + C_n(1+r)^{0.5}(1-f)^{0.5} \]
where
- \( A_n \) = assets in year \( n \)
- \( C_n \) = contributions in year \( n \)
- \( r \) = average annual return
- \( f \) = annual management fees expressed as a percentage of assets

3. Data used
- 2013 Q3 Quarterly Labour survey..
- January 2013 to December 2013 Amps data

4. Total Contribution rate
- California Secure Choice Retirement Savings Programme – 3% from year 1 to year 10
- Australian Superannuation Guarantee - contributions start at 3% and increase by 0.5% each year to 8% in year 10.
- KiwiSaver- average contribution rate from year 1 to year 7 is 4% and 6% thereafter
- Auto enrolment as in the UK - contribution rate start at 3% in year 1 increasing by 1% each year to 9% in year 6 and remain at 9% thereafter
Which model results in more assets in SA after 10 years

30% OPT OUT

California Secure Choice Retirement Savings Programme

NNZ Kiwi Saver

• Higher contribution rate than California Secure Choice Retirement Savings Programme

UK Auto enrolment

• Higher contribution rate
• Lower coverage than NZ Kiwi Saver but----

R250bn

R300bn

R430bn

R570bn

• High Coverage
• High contribution rates

Which model results in more assets in SA after 10 years

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1. Context
3. Worldwide models
4. WHAT ARE EMPLOYEES SAYINGS
5. Moving on
Question time
Employees have a polarised view of whether they should be allowed to opt out.

Suppose government makes it compulsory for every employee who does not currently belong to a pension fund to belong to this fund.

Now, thinking about the extract that you just read, do you think the employees should be allowed to opt out?

- Yes – they should be allowed to opt out
- No – they should not be allowed to opt out

Retirement annuity owners are aware of the benefits of owning a product that makes provision for retirement.

n = 809
Employees have a polarised view of whether they should be allowed to opt out.

- **Less than R12 000**
  - No: 47%
  - Yes: 53%
- **R12 000+**
  - No: 54%
  - Yes: 46%
- **18-30 years**
  - No: 45%
  - Yes: 55%
- **31-39**
  - No: 57%
  - Yes: 43%
- **40+ years**
  - No: 51%
  - Yes: 49%
- **Female**
  - No: 48%
  - Yes: 52%
- **Male**
  - No: 55%
  - Yes: 45%
- **No RA**
  - No: 46%
  - Yes: 54%
- **RA**
  - No: 35%
  - Yes: 65%
Some feel that employees should still have the right to choose whether they want to be part of the fund, while others view it as a good safety net.

<table>
<thead>
<tr>
<th>Should they allowed to opt out?</th>
<th>Reason for rating</th>
<th>Yes – they should be allowed to opt out</th>
<th>No – they should not be allowed to opt out</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>n=397</td>
<td>n=412</td>
</tr>
<tr>
<td>You should still have the right to choose</td>
<td></td>
<td>55%</td>
<td>0%</td>
</tr>
<tr>
<td>It might not be affordable</td>
<td></td>
<td>18%</td>
<td>0%</td>
</tr>
<tr>
<td>There may be better options available</td>
<td></td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>I do not trust the government</td>
<td></td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>It will provide income during retirement</td>
<td></td>
<td>5%</td>
<td>36%</td>
</tr>
<tr>
<td>Some people have enough knowledge to manage their own finances</td>
<td></td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>They may already belong to a fund</td>
<td></td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Mismanagement of the fund is a concern</td>
<td></td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>It is the individual’s responsibility to plan for retirement</td>
<td></td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Everybody will benefit</td>
<td>Everybody needs a pension</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>So that people don’t become a burden to taxpayers</td>
<td></td>
<td>0%</td>
<td>13%</td>
</tr>
<tr>
<td>It seems affordable</td>
<td></td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Reason for rating | In their own words...

Yes –
they should be allowed to opt out

“I believe people should always have a choice - some people might need that little bit they have to pay for something urgent.”
(Female, 22 – 24 years, employed part-time)

“No –
they should not be allowed to opt out

“People do not realise the expense of living when retiring, and they end up unable to survive.”
(Male, 40 – 45 years, employed full-time)

“Freedom of choice and, most importantly, I do not trust our government to handle anything to do with my finances!”
(Female, 51 – 60 years, self-employed)

“It is essential for all to have some kind of retirement fund. And in essence, this fund relieves the government from having to take care of the elderly, thus precaution is better than having to find immediate solutions for the elderly.”
(Male, 31 – 35 years, employed full-time)

“Because government is totally untrustworthy and I will not get any benefits, only disadvantages, from their plan. It is unconstitutional to force people to invest in their plan.”
(Male, 40 – 45 years, employed full-time)

“Because thinking of when you retire, you won’t have anything due to the fact that there’s no benefit, so rather take action today.”
(Female, 22 – 24 years, employed full-time)
Most feel that all employees should be included in the fund, irrespective of tenure and type of employment.

Please indicate the category of employees who you think should be included in fund:

- 89%: All employees, regardless of when they started at their company
- 11%: Only new employees (i.e. those who have started at their company in the last 12 months)

- 59%: All employees, including part-time workers and contractors
- 41%: Only permanent employees
2 in 3 employees are likely to opt in

Interesting significant differences regarding likelihood to be part of the fund:

- Full-time employed, part-time employed are significantly more likely to choose to be part of the fund.
- Self-employed employees are significantly less likely to choose to be part of the fund.
- Employees who already own a retirement annuity are significantly more likely to also choose to be part of the fund.

How likely are you to choose to be part of such a programme if it is introduced?

- Completely likely: 39%
- Very likely: 30%
- Moderately likely: 17%
- Slightly likely: 9%
- Not at all likely: 6%
Employees who are likely to opt in

<table>
<thead>
<tr>
<th>No RA</th>
<th>RA</th>
</tr>
</thead>
<tbody>
<tr>
<td>33%</td>
<td>55%</td>
</tr>
<tr>
<td>32%</td>
<td>24%</td>
</tr>
<tr>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

- Very likely
- Slightly likely
- Not at all likely
- Moderately likely
- Completely likely

Employed full-time:
- Not at all likely: 31%
- Slightly likely: 8%
- Not at all likely: 5%
- Moderately likely: 16%
- Completely likely: 41%

Employed part-time:
- Not at all likely: 24%
- Slightly likely: 14%
- Not at all likely: 14%
- Moderately likely: 49%
- Completely likely: 24%

Self-employed:
- Not at all likely: 28%
- Slightly likely: 11%
- Not at all likely: 13%
- Moderately likely: 23%
- Very likely: 23%

- Completely likely: 24%
New employer-sponsored pension fund

In this section employees were introduced to an employer-sponsored pension fund...

Your employer does not currently have a pension plan to enable you to save for retirement. Imagine that your current employer has now decided to enrol you in a pension fund.

Your employer would suggest not only the pension fund, but also how much you need to contribute towards the pension fund (i.e. a specific % of your monthly salary goes to your new pension fund).
The results below suggest that employees prefer to have a say and some control over their fund.

Who should choose the financial company who will invest your pension fund?

- **66%** It should be a joint decision between myself and my employer
- **24%** I would like to choose the company
- **10%** My employer should choose the company
Which fund are you more likely to join, assuming that the benefits are the same for both?

- My privately managed employer pension fund: 49%
- I am likely to join both if they allow me to split my contributions: 19%
- The government pension fund: 15%
- I am indifferent: 13%
- I am not sure: 5%

(n = 809)
Agenda

1. Context
3. Worldwide models
4. What are members saying?
5. MOVING ON
Question time
Conclusions and key messages | Final messages

- While most customers plan to retire at the general and most accepted age of 65, there is an interesting trend amongst older customers (40+ years): close to a third only plan to retire at the age of 70 or older.

- This points to the fact that older customers are more aware of the amount required for a comfortable retirement and that they may not reach this at the age of 65.

- And while many feel that they can do things differently to feel more safe and secure when they retire, almost 1 in 5 customers think that they need to find another job opportunity once they have retired from their current employment.

- Another 1 in 10 customers feel that there is nothing they can do to remedy their current situation.

Everyone is feeling the pinch...

...this ties in with many customers feeling dissatisfied with their financial readiness for retirement.
Customers are divided in terms of whether the a government sponsored pension fund should be compulsory or not.

- The major barrier is that customers feel they should have the right to choose as to whether they want to be part of the fund. There is also a degree of concern that they might not be able to afford the contribution due to limited monthly income.
- When asked to choose, customers indicated a preference for employer-sponsored funds over a government-sponsored fund. Having a strong say in the fund choices may play a role in this.

While some customers may take action themselves and open an investment account or increase savings, other customers display a sense of hopelessness or are concerned about affordability of additional retirement savings. This suggests that they may not take action themselves.

- This suggests that government should act to create a retirement saving system where all employees must save for retirement. The system should be offered through employer sponsored plans and allow some form of opt-out for employees.
People who do not belong to a pension or provident fund are dissatisfied with their retirement provision. Employees show a strong preference for an employer-sponsored solution, where they can have a degree of participation in decision making. The system should also allow some form of opt-out for employees.
Thank you.