



Goals for 2010 & beyond

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2010 PLA CONFERENCE - SPIER - WESTERN CAPE
.....

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Topic Reforming after the crisis

BALANCING OPPORTUNITY WITH PROTECTION

After the Storm

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Aim of presentation

- Provide
 - i. Latest perspective on the reform
 - ii. Interpretation of the economic slowdown on retirement funding
- Focus on lessons from the state of the economy
 - i. ... biggest intervention by far

Road map

- What we said last year?
- What has been the turnout?
- What the future has in store?
- How should we respond?

Similarities shared with ROW...

- We are all in transition
- Unemployment is common
- Unsustainable fiscal balances
- We learn from each other



Reform

Proposals

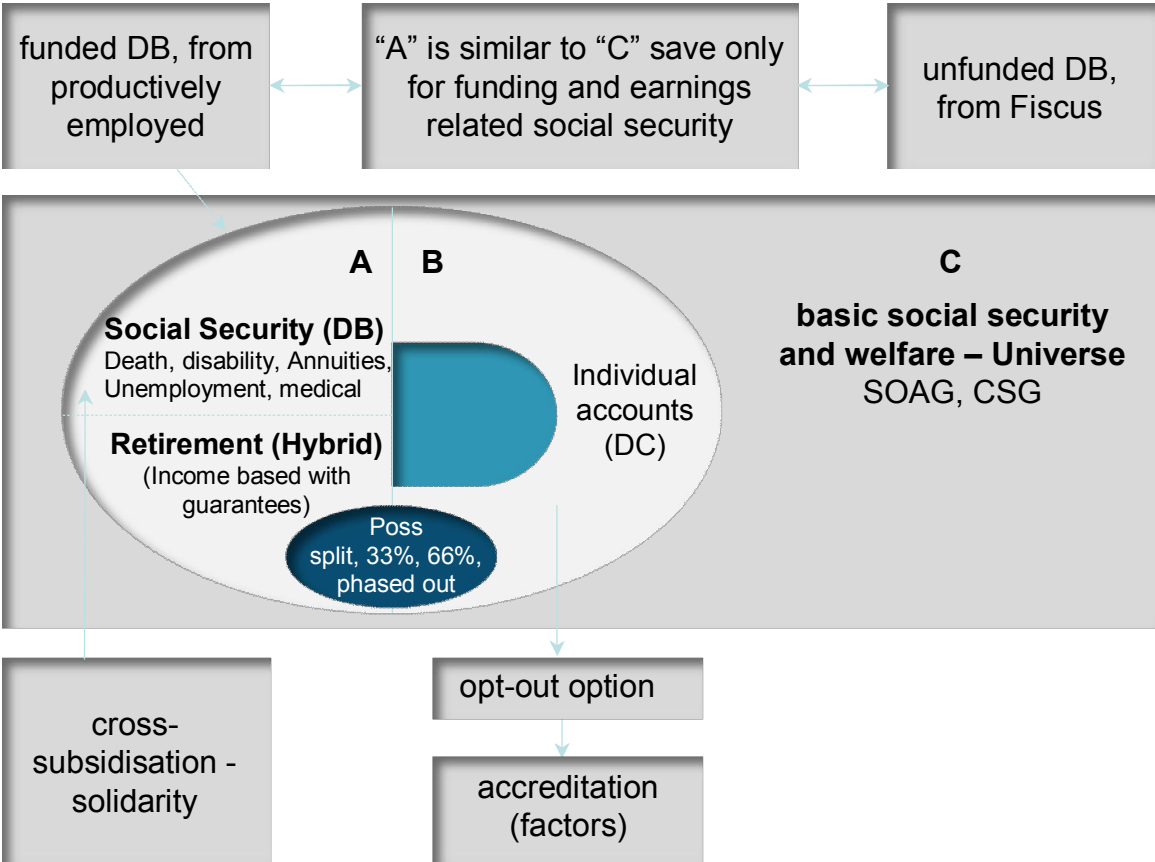
Underlying objectives

- Increase access
- Reduce dependency on the state
- Ensure that people retire comfortably
- Ease regulation

Replacement targets...

years to Retirement	Target		
	75%	60%	40%
15	65	52	35
20	46	37	25
25	35	28	19
30	28	22	15
35	23	18	12

Model in a nutshell



Source: Masilela E, Sanlam Employee Benefits Information Sheet, April 2008

Developments

In negotiation
process

Since the first paper...

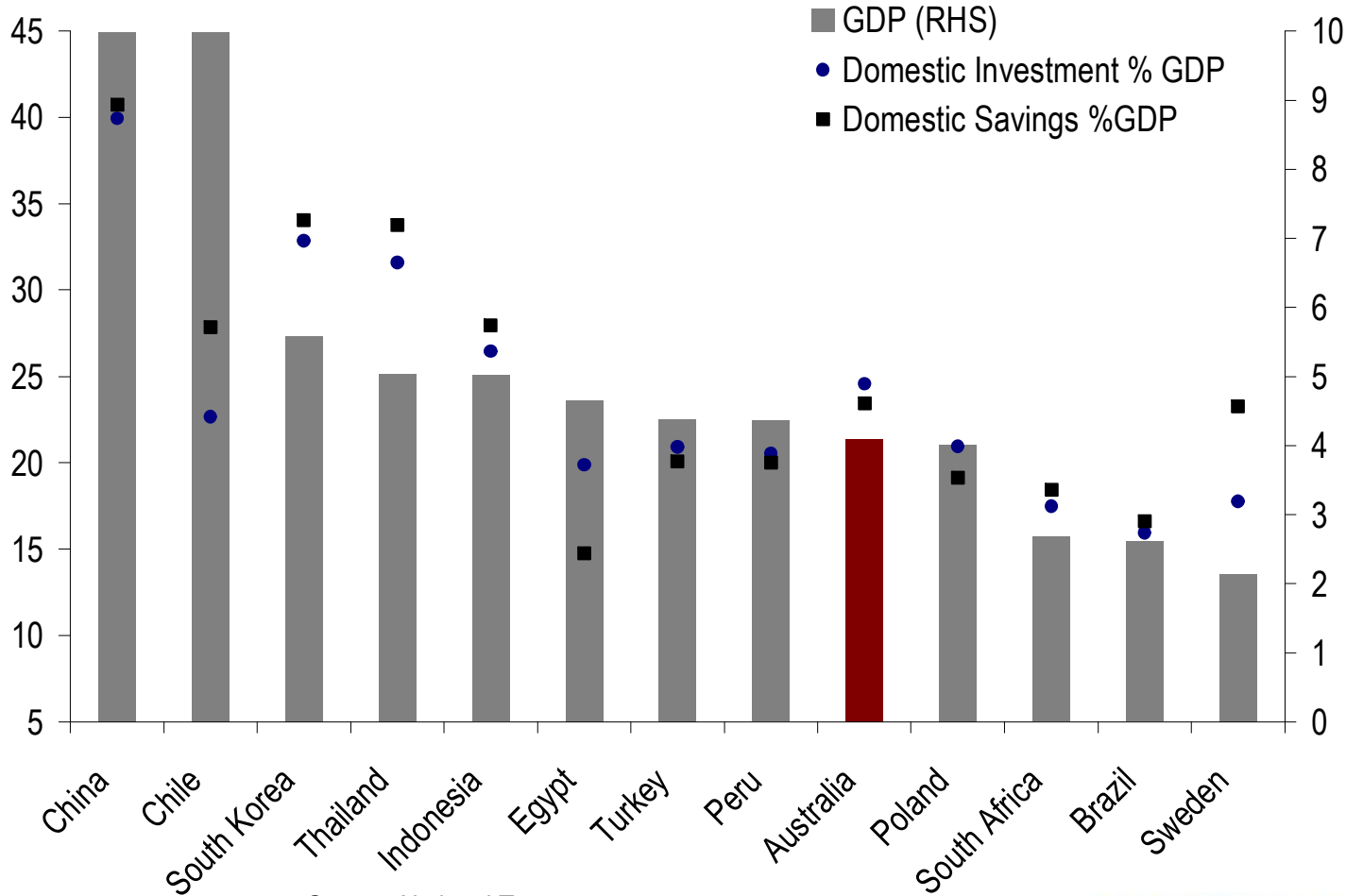
- There have been significant delays
- ... gradual implementation
 - i. Government
 - ii. Budget announcements
- Expect negotiations to start during first half 2010
 - i. Confirmation of existence of convergence paper
- Nedlac engagements have been stepped up
 - i. After Budget Speech
 - ii. Consideration of NHI and reform

Views from Budget 2010

- Economy is important
- Given origins of the crisis, financial regulation to be stepped up
- Labour market is crucial for reform
 - i. Unemployment shifting to high income group
 - ii. Need for higher flexibility
 - iii. Youth unemployment is biggest challenge
- Recognition of interplay between social security and NHI
- ... Solutions to be led through fiscal interventions

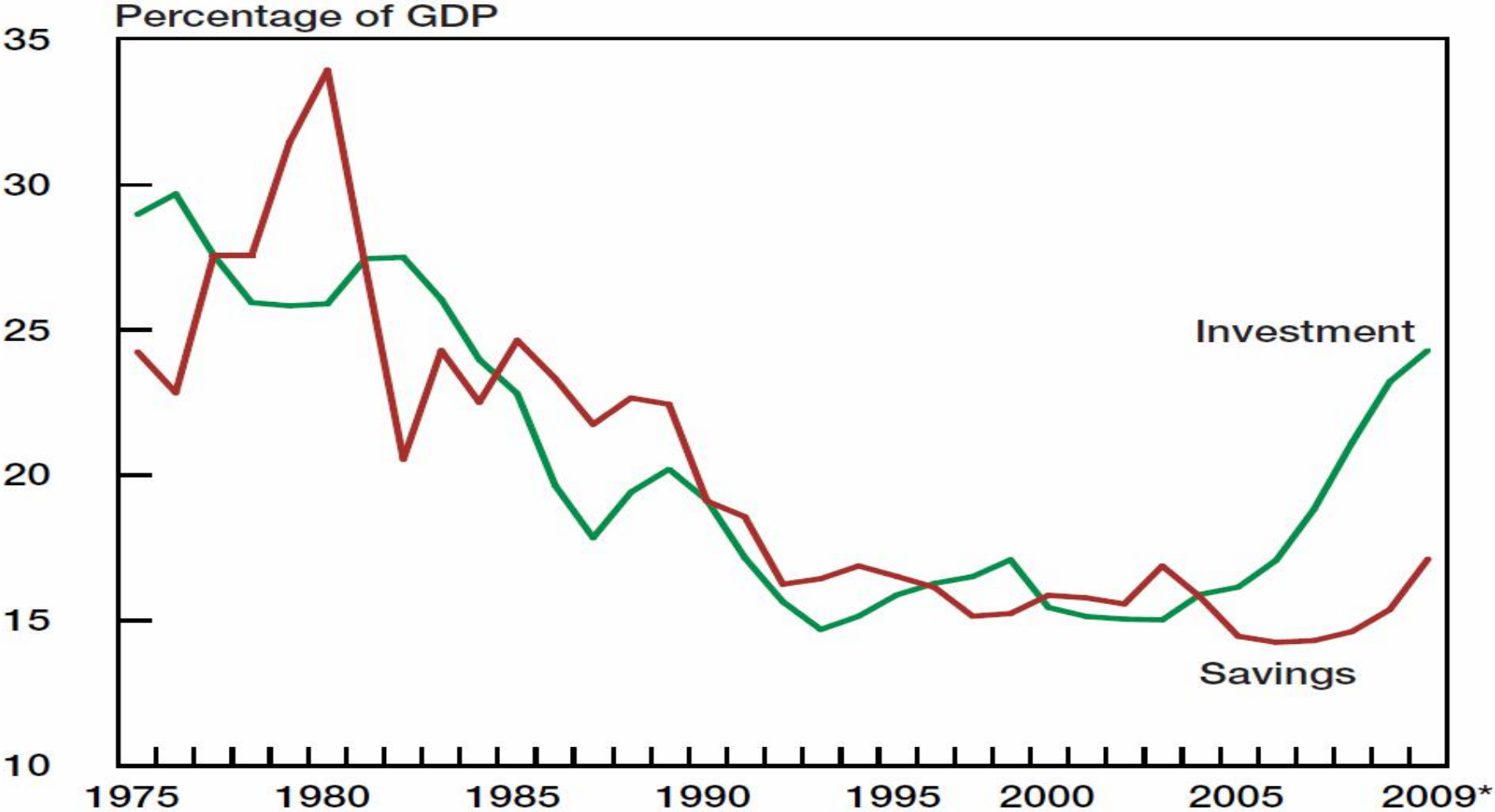
Why the economy

Saving-investment relationship



Source: National Treasury

Saving and investment ratios



* First quarter

Source: SA Reserve Bank

Source: SARB



Global

**Economic
backdrop**

Crisis chain ... a vicious circle



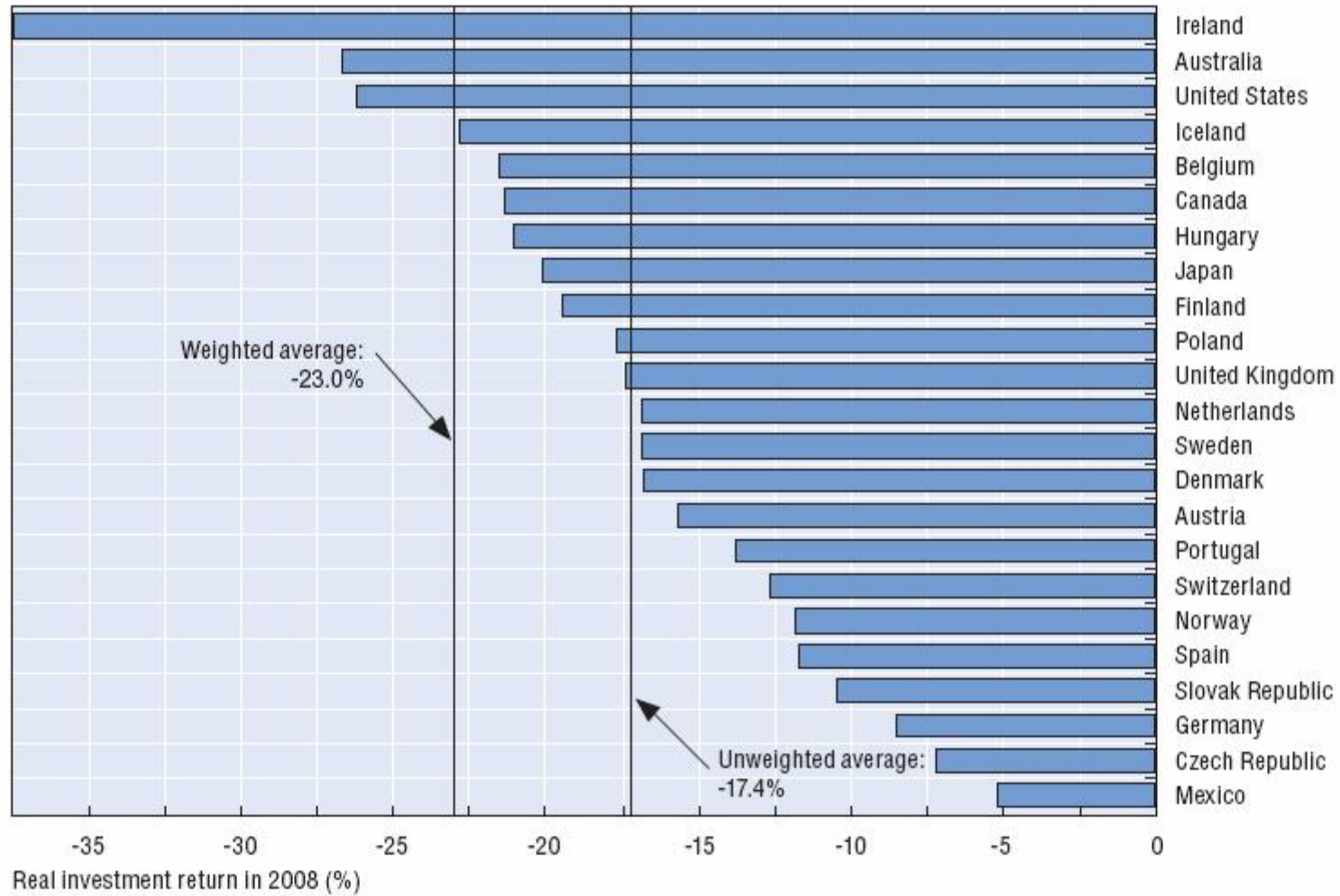
Age of new challenges

"Last year it was banks; this year it is countries."

"Some of today's nervousness comes from policy risk ".

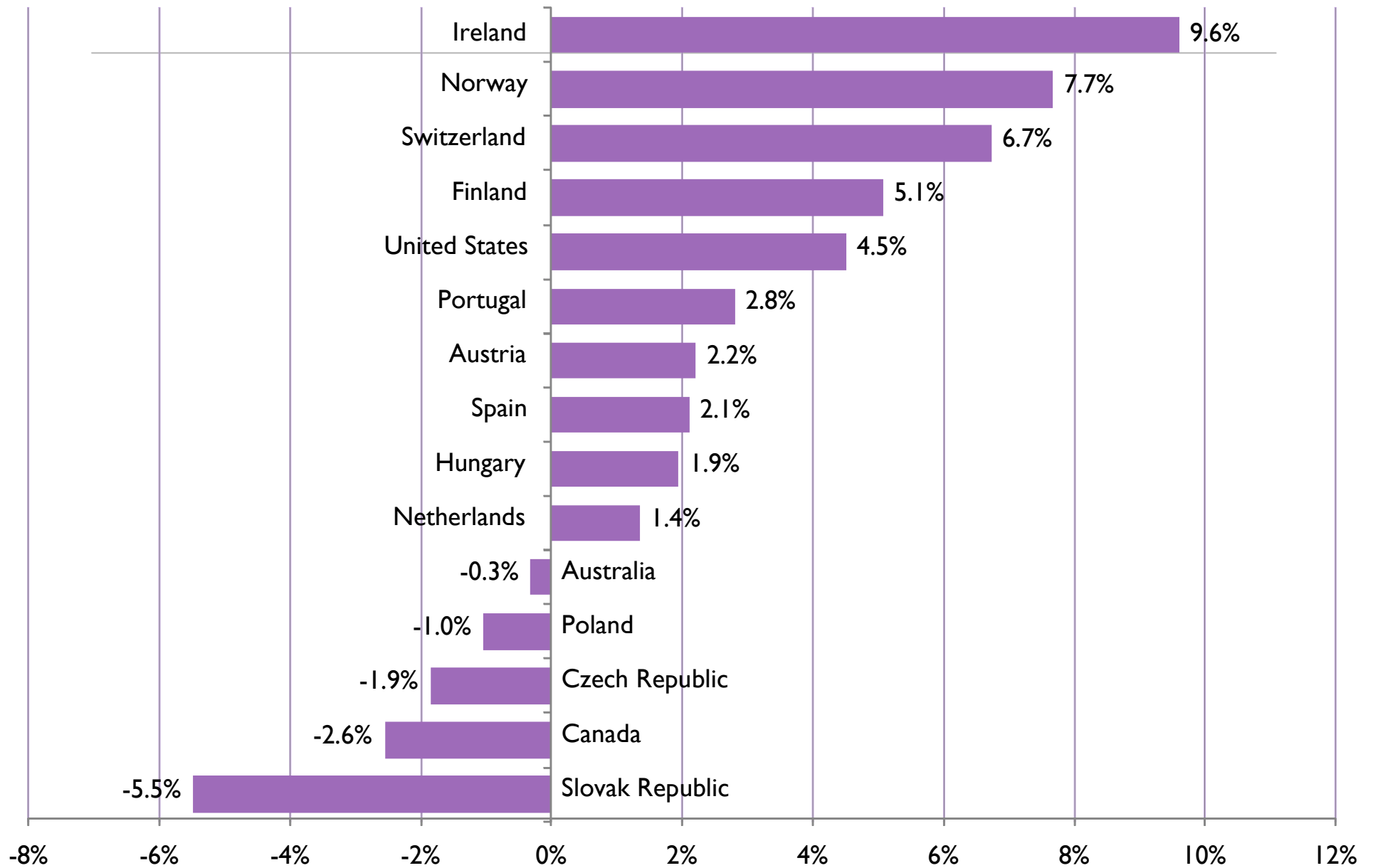
Economist, 13 February 2010, pg 9

Pension funds' real investment returns, 2008



Source: OECD

Pension funds' real returns, January-June 2009



Source: Edward Whitehouse and OECD, 2010



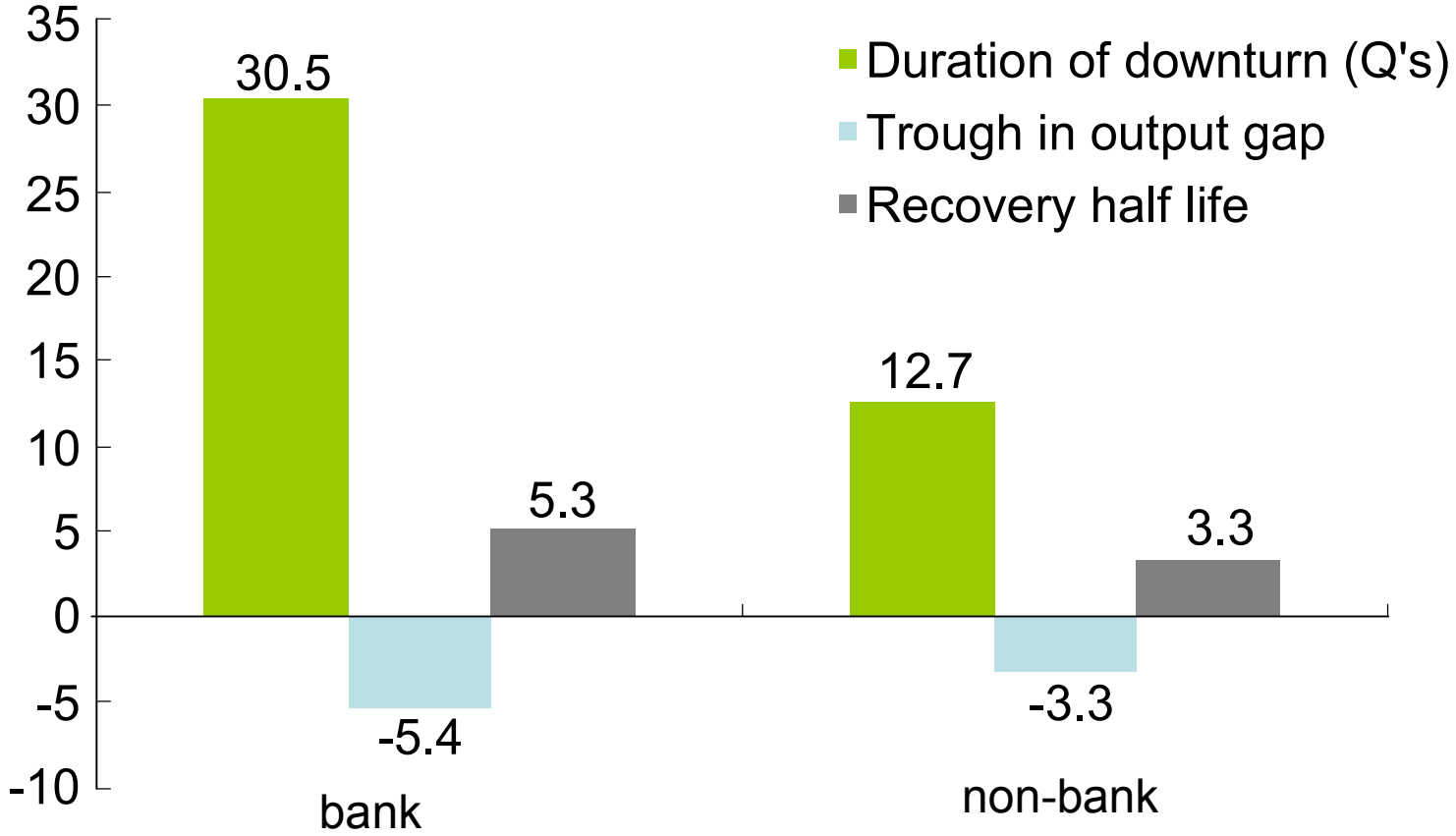
Global

**lessons on
bank crises**

Lessons

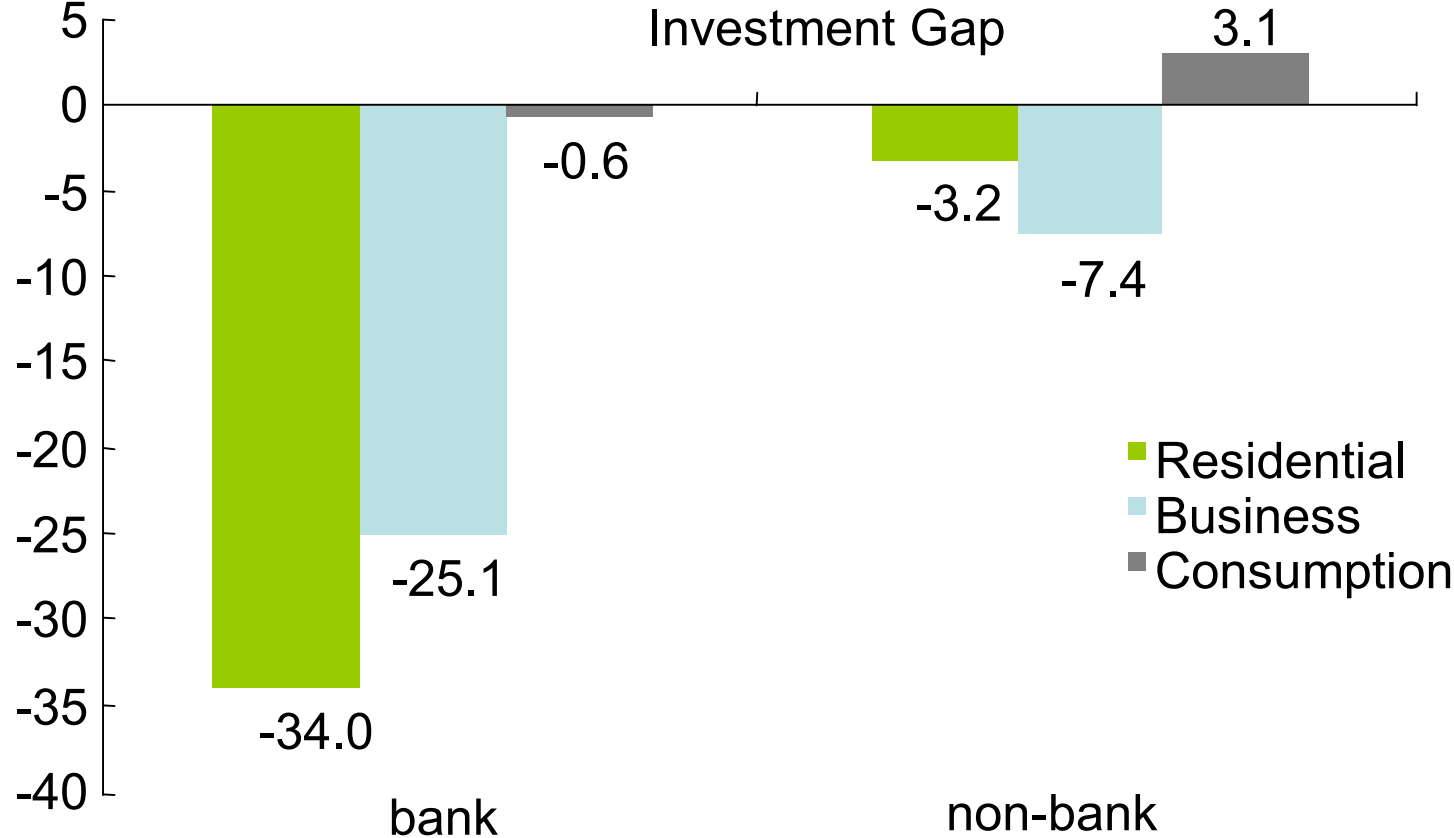
- Bank crises have deeper and longer term impact than non-bank crises
- Consistent across all sectors of the economy

Impact on growth



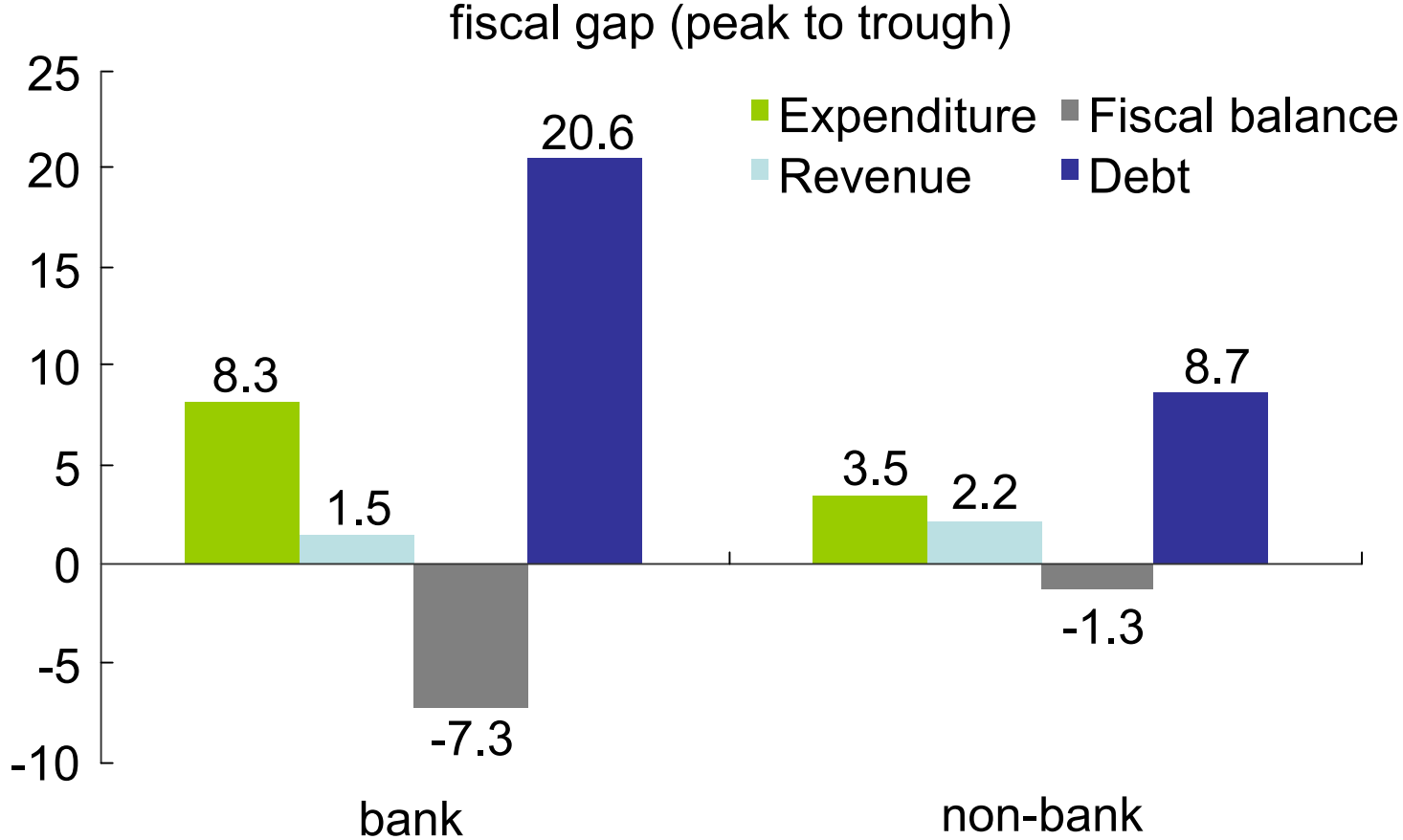
Source: Haugh David, Ollivaud Patrice and Turner David, 2009

Impact on investment



Source: Haugh David, Ollivaud Patrice and Turner David, 2009

Impact on fiscus

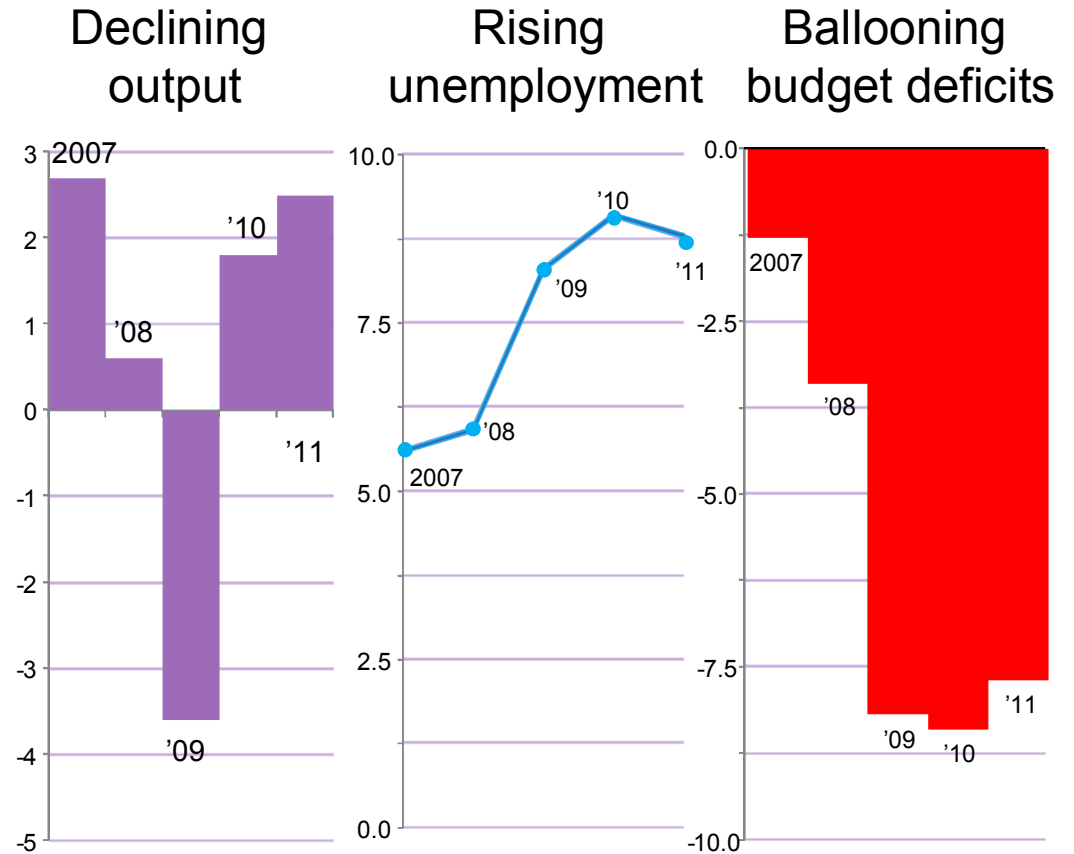


Source: Haugh David, Ollivaud Patrice and Turner David, 2009

OECD experience

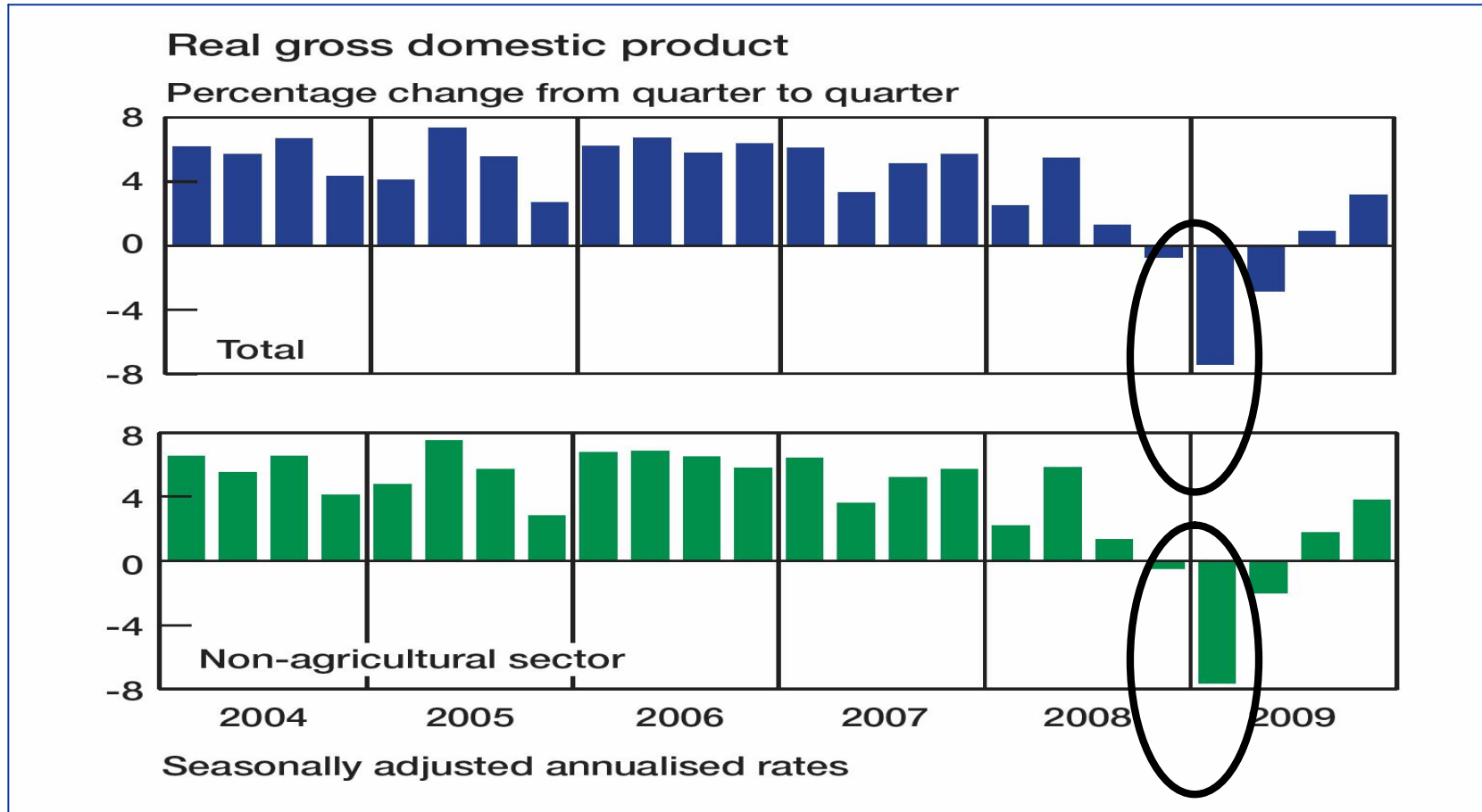
But it became an economic crisis.

Higher unemployment and pressure on wages cuts revenues from taxes and contributions



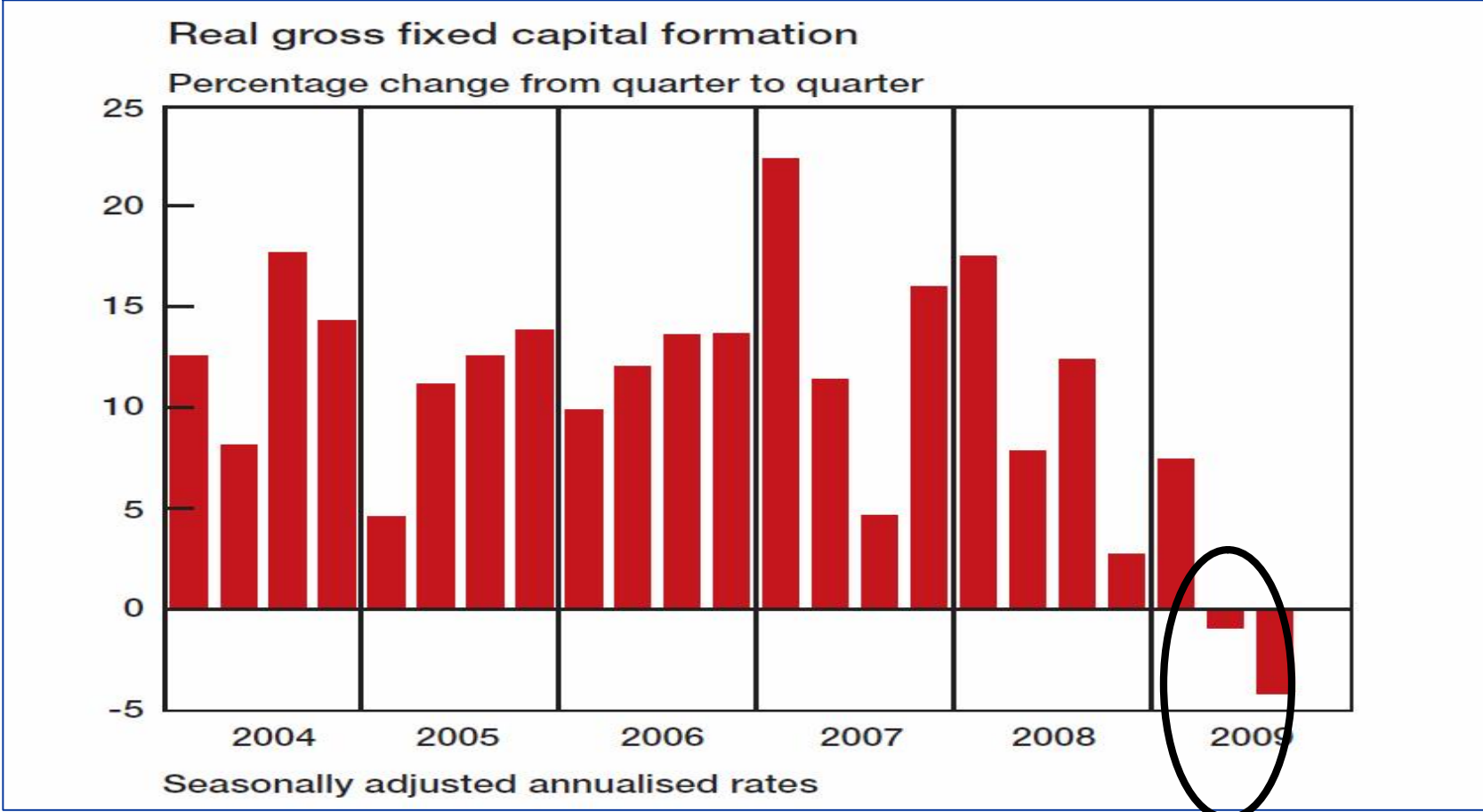
Source: Edward Whitehouse and OECD, 2010

South Africa's GDP growth

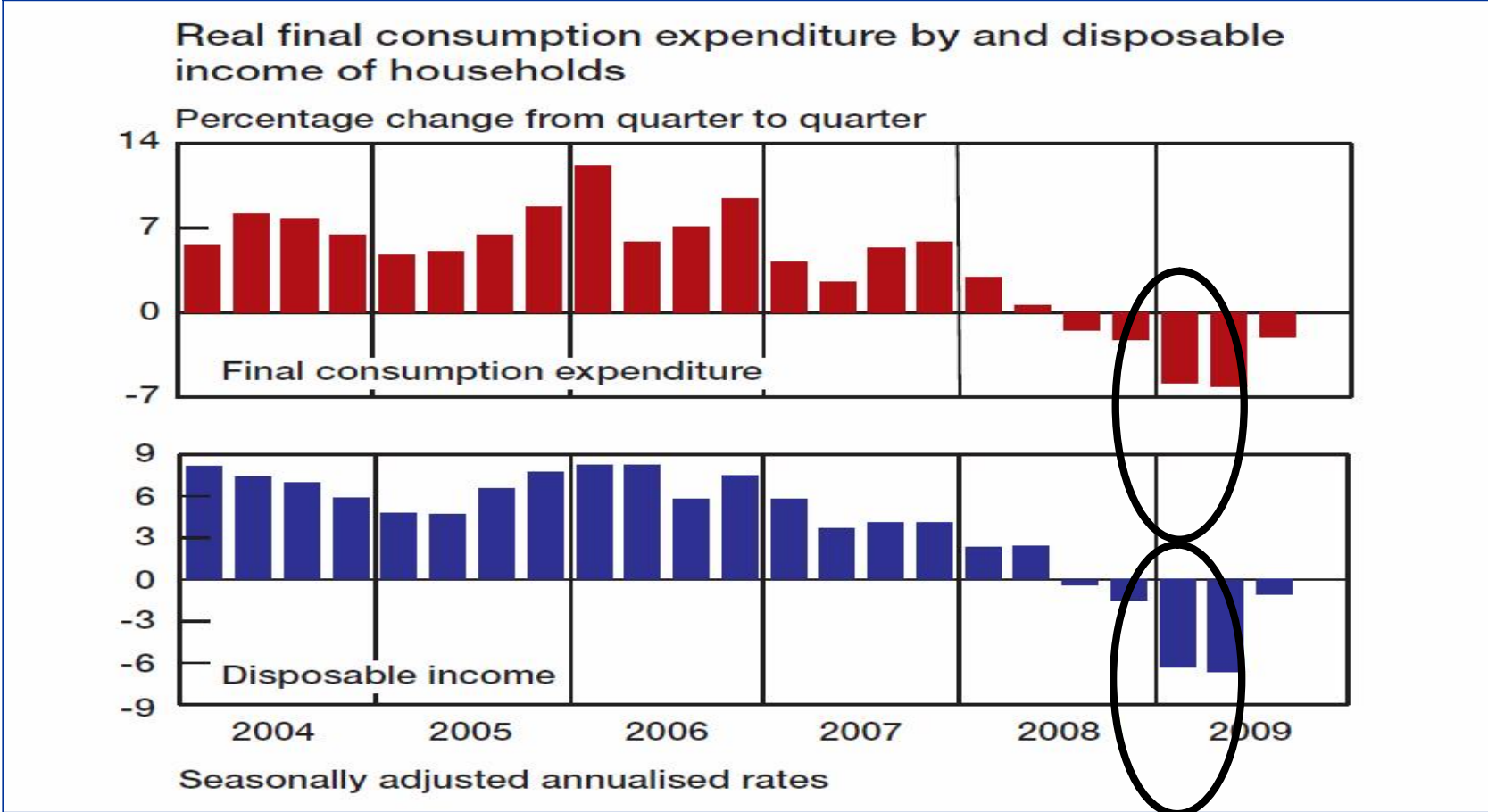


Source: SARB, March 2010

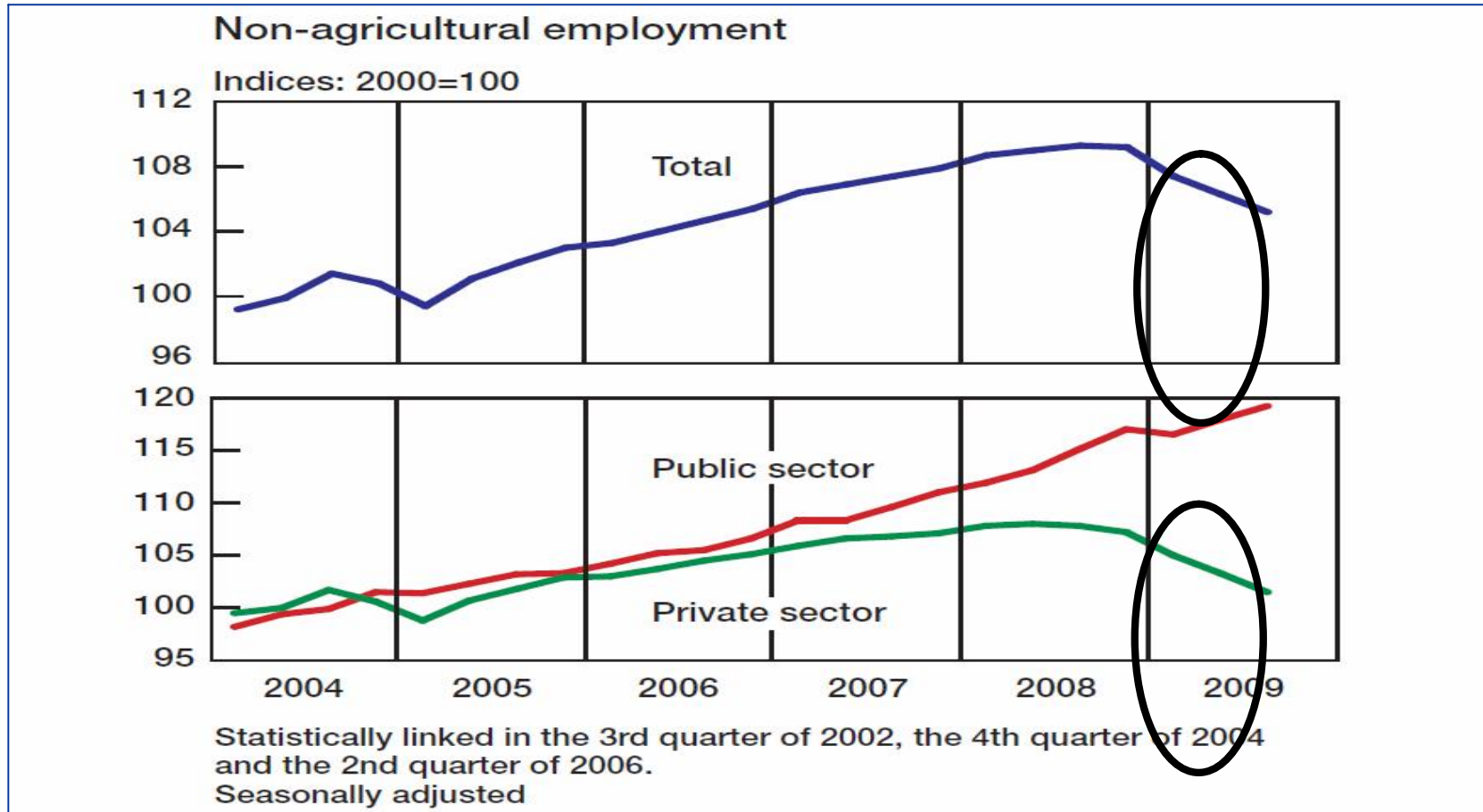
Fixed capital formation



Consumption & disposable income



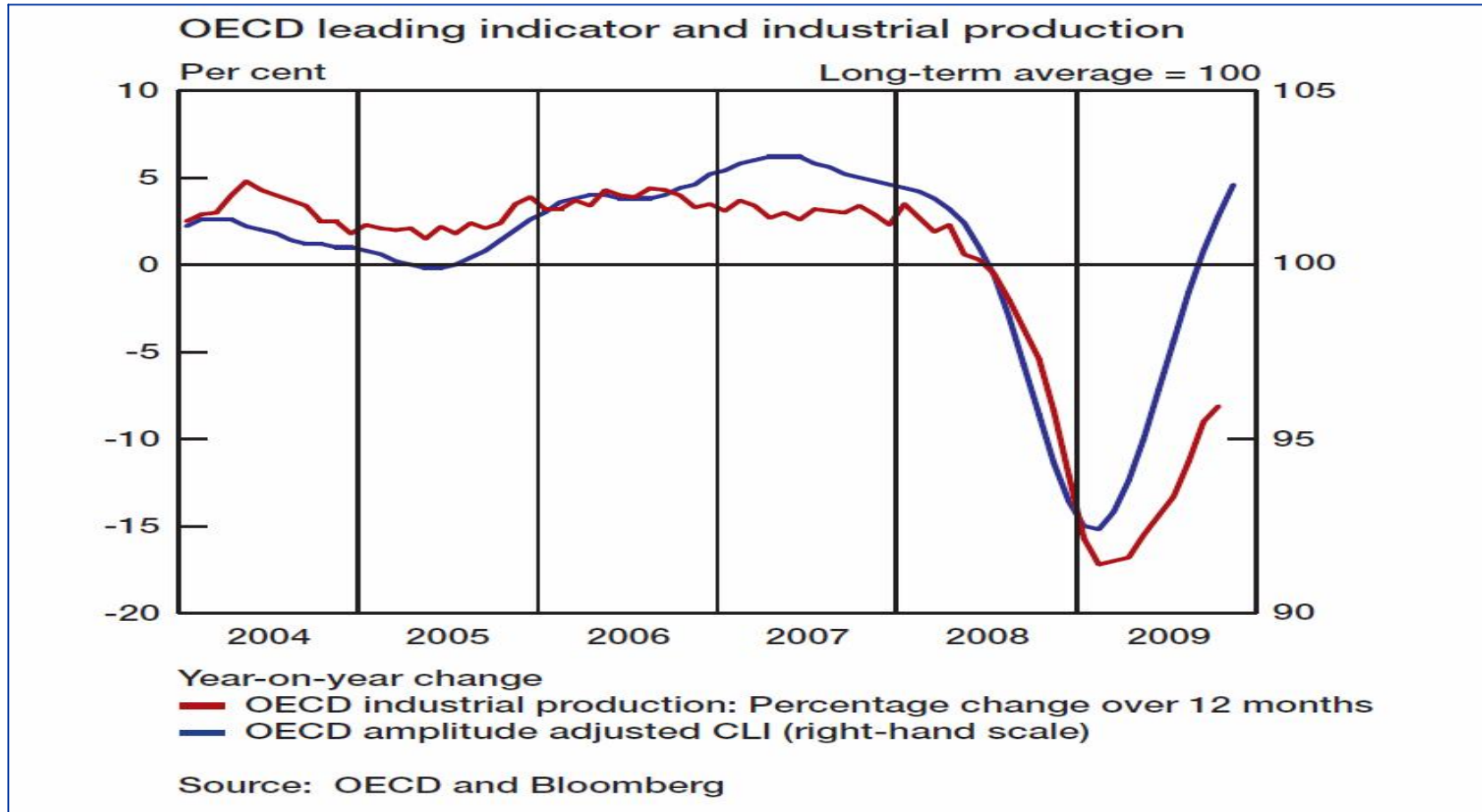
Formal employment



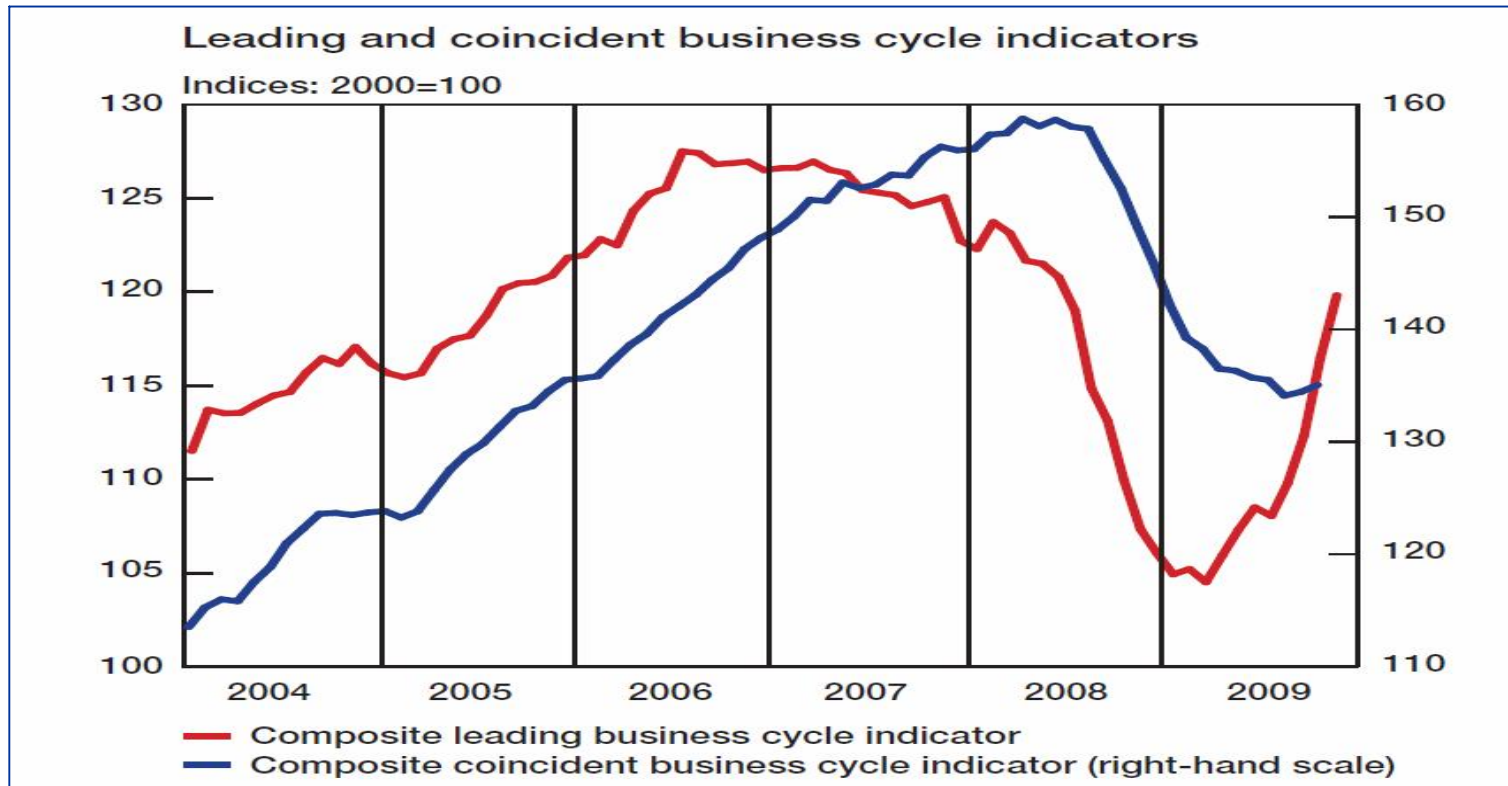


Prospects?

OECD leading indicator



SA composite leading indicator





Beyond

the crisis

Risks

- Deleveraging
 - i. Unwinding of debt with pull down growth
 - ii. Tighter credit
 - iii. Lower consumer demand
 - iv. Stronger EM growth due to lower leveraging

Real economy

- Delicate economic recovery
 - i. Led by EM's
 - ii. South Africa is out of recession
 - iii. OECD to reach its trend growth by 2011, after recording positive growth in the last two quarters last year
- Confidence on a global recovery is more firmer with the Far East leading

Financial economy

- Strong asset price recovery in 2009
 - i. GEPF recovered 20% to October
- Monetary policy stance to remain
 - i. China is exception
 - ii. Upward inflation remains main risk, with oil prices having broken the \$80 level
 - iii. But slack turnaround may keep it under check

Labour market impact

- Unemployment is biggest risk
 - i. Huge retrenchment risk
- Unemployment to continue rising in 2010
 - i. Worldwide youth unemployment to rise by 10.2m in 2009 (ILO, IMF)
 - ii. 1.5 billion people unemployed worldwide (about 50%)
 - iii. European unemployment jumped to 8.4% (2009) from 5.7% (2007)

Labour market

- To gain prominence
 - i. Single most important consideration for turnaround and social security reform
- Flexibility will return to the policy table
 - i. Precedence in Europe

Labour market dev. - Europe

- Growing concern about competitiveness and job protection
- Tripartite responses
 - i. temporary wage freezes
 - ii. short-time working arrangements
 - iii. training to increase employability
 - iv. flexibility regarding hours of work
- Economic friendly solutions

Global retirement reforms

- Shift from DB to DC continues
- Enhanced governance emphasised
- Risk management is being escalated
- Education is being deepened



Thoughts

to take away

Risks for 2010

- Risk management and regulation
- Sustainability of asset prices
- Early withdrawal of fiscal and monetary support
 - i. China being the biggest risk
- Inflexibility in markets
 - i. Labour markets in particular
- Sustained pessimism on back of collapsed trust
- New regulatory requirements impacting costs and investor sentiments
- Deepening fiscal crisis
- Debt overhang for both individuals and governments
- Double dip recession
- However, differential responses between rich and poor critical

How to respond?

- Actions must support job creation
- Employability must be emphasised over job security with a strong attention to education and training
- The most vulnerable must be protected
- Social dialogue is necessary
- Protectionism is not the answer

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THANK YOU
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