

SAM, TCF and the Reform

Take care what you wish for

Rob Rusconi, Tres Consulting



Paradise?



Changes are coming

- Pension reforms
- Treating Customers Fairly
- Twin Peaks
- Solvency Assessment and Management



The reforms are ambitious and far-reaching

- Pension reform objectives
 - inadequate saving
 - poor presentation and portability
 - high fees and charges
 - low levels of annuitisation



- Treating Customers Fairly
- Twin Peaks
- Solvency Assessment and Management



TCF is dramatic but surely a little unknown?

- Pension reforms
- Treating Customers Fairly
 - confident customers
 - products meeting needs
 - clear information
 - suitable advice
 - performing products
 - access to change
- Twin Peaks
- Solvency Assessment and Management



TCF introduces a set of key principles

- Pension reforms
- Treating Customers Fairly: the ultimate goals
 - confident customers
 - products meeting needs
 - clear information
 - suitable advice
 - performing products
 - access to change
 - clear leadership
 - coherent strategy
 - deliberate decision-making
 - sound governance
 - soundly measured performance
 - appropriate reward
- Twin Peaks
- Solvency Assessment and Management



Twin Peaks does not merely shift chairs

- Pension reforms
- Treating Customers Fairly
- Twin Peaks: regulatory principles sought
 - transparent
 - comprehensive & consistent
 - appropriate, intensive & intrusive
 - outcomes-based
 - risk-based & proportional
 - pre-emptive & proactive
 - a credible deterrent
 - aligned with international standards
- Solvency Assessment and Management



Are we certain about how things will look?

- Pension reforms
- Treating Customers Fairly
- **Twin Peaks**
 - transparent
 - comprehensive & consistent
 - appropriate, intensive & intrusive
 - outcomes-based
 - risk-based & proportional
 - pre-emptive & proactive
 - a credible deterrent
 - aligned with international standards
- Solvency Assessment and Management



- retirement funds pencilled in to stay with market conduct regulator
- based on risk profile



Changes are coming

- Pension reforms
- Treating Customers Fairly
- Twin Peaks
- Solvency Assessment and Management
 - entrenches a risk-based culture
 - nearly all insurance failures caused by management failure
 - pay attention to your risks



Case study: post-retirement provision



Providing a pension from the fund

- Sound strategy in the interests of members
 - ✓ charges on personal annuities high
 - ✓ concerns over integrity of advice to retirees
 - ✓ limited choice realistically available from the market
 - ✓ questions on products



Providing a pension from the fund

- Living annuity is a natural choice
 - ✓ potential for high investment returns
 - ✓ flexibility in the hands of the member
 - ✓ opportunity for sound transition



Trade-offs not so obvious

- Living annuity misses mortality credit

Example mortality credits on lifetime annuities	
Age	Annual %
65	0.83
70	1.38
75	2.37
80	4.14
85	7.25



Source: IFID calculations, quoted by Milevsky, M (2006)
Annuity: If Not Now, When?, **The IFID Centre**, July

- Living annuity doesn't address the risk of outliving your money
- Few understand these trade-offs



What might our approach be?

- Great opportunity to provide an excellent benefit
 - recognise the risks
 - protect the fund
 - communicate, communicate, communicate



What have we learned?

- Retirement funds are well positioned to help members
 - looking after stakeholders is not simple
 - funds must watch the risks that they take on
 - and think carefully on behalf of their members
 - but giving these members to others could be irresponsible
- Funds have a great opportunity to make a real difference



Thank you

robr@tresconsulting.co.za

PENSION LAWYERS

ASSOCIATION

