



20th Annual Pension Lawyers Association
Conference 2015

Investor BEHAVIOUR and the role of technology

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Problem

- Persistent and massive failure rates
 - No improvement over the last 20 years
 - Added more complexity

Why?

- Savings failure
 - Inadequate contributions
 - Inadequate term
- Investment failure
 - Poor portfolio choices (switching, chasing past performance)
 - Under performing fund managers (gross and net)
 - High fees (lack of disclosure, complex performance fees and meaningless benchmarks)

Case study: MO

- Working for Financial service providers for more than 20 years
- Staff Pension/Provident Funds – Institutional
- Changed companies – RA's

Case study: MO

- Insurer/product provider insisted on FA
- Investment strategy stayed the same
 - Same asset allocation
 - Same portfolio manager
- Fees: 1% to 4.5%
- Over 8 year period = 7.2% real growth

Defined Contribution

- Member assumes 100% risk of failure
- Industry:
 - DOES NOT provide sensible solutions BUT
 - GIVES options
- Vastly different outcomes

How do we address this?

- Tony Robbins
 - 20% Knowledge
 - 80% Psychological
- Strategy (have to know what you trying to achieve)
- Change your story (its not complex – very simple)
- Practice until perfect

20% Knowledge

- Need income in retirement
- Have to save as much as possible, starting as soon as possible
- Compounding of interest
- Salary break-down (income)
- Option to change contribution rates and impact thereof (take home pay)
- Fees

Input assumptions

Gender: **Male**

Age: **35**

Retirement age: **65**

Current savings: **R 250 000**

Investment term: **30 years**

Current Salary: **R 60 000 p.m.**

Final salary at retirement (real): **R 80 870 p.m.**

Current Contribution rate: **13%**

Annual salary increases of **CPI + 1%**

Annualized investment return: **CPI + 5%**

Investment product: **High Equity Regulation 28 Balanced fund (entire period)**

Variable	13% Current contribution	15% Increased contribution	Change
Monthly contribution	R 7 300	R 8 900	+ R 1 600
Nett monthly salary	R 43 600	R 42 500	- R 1 100
IRR	65%	77%	+ 12%
Real monthly salary at retirement	R 54 500	R 62 200	+ 12%

80% Psychological/Behaviour

- Money is emotive – tend to generalise
- Terms such as wealth management – makes you feel good – what does it mean?
- Difficult to imagine retirement when in your 20-40's – Replacement ratio?
- Too complicated for me, am not in finance
- Focused on risk profile rather than understanding the power of money (inflation)
- Consumers rather than savers/owners (shares)

80% Psychological/Behaviour

- Switching at the wrong time (performance driven)
- Cashing in when changing jobs/short term
- I'll start tomorrow....
- Not aware of fees and understanding what you are actually paying for
- Relying on someone else to help/sort out the problem (children, government)
- Making decisions based on other peoples views, profits/losses

How do we positively change behaviour?

- Visual
 - What will my retirement look like?
- Consequences
 - Impact of day to day decisions?
 - Can I measure and understand these decisions in relation to my time frame?
 - Yes, Practice, Practice, Practice

What will your retirement look like?

This online course, led by award-winning analyst Steven Nathan, contains four 30-minute coaching guides ("cogs"). By combining 4 books, 4 videos, 9 content links, 12 articles, and over 20 summary quotes, these Q&A modules bring together everything you need to know to retire on your own terms!

"I was kept interested by the range of information, and the links to other sources were quite useful."

"I like the presentation. The conversational nature and delivery of the bits of information made it easy to absorb."

"I know better now."

To access all the great learning material in the free course, you need to register. We'll capture your details so that you can keep track of responses. All information is kept private and you WILL NOT be spammed.

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STEP 1: SET YOUR GOAL
STEP 2: MAKE YOUR CHOICE
STEP 3: TAKE ACTION
STEP 4: STAY ON TRACK

Recalculate

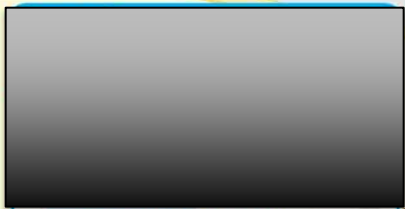
Bad news! The calculation predicts your retirement income as **less than 10%** of your current income! It's time to take action so that you don't settle for less!

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STEP 1: SET YOUR GOAL

STEP 2: MAKE YOUR CHOICE


STEP 3: TAKE ACTION

STEP 4: STAY ON TRACK

Recalculate



Getting there! The calculation predicts your retirement income as 51-60% of your current income! It's time to make your choice so that you don't settle for less!



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STEP 1: SET YOUR GOAL
STEP 2: MAKE YOUR CHOICE
STEP 3: TAKE ACTION
STEP 4: STAY ON TRACK

Calculate my retirement score!

Great stuff! The calculation predicts your retirement income as 91-100% of your current income! It's time to stay on track so that you don't settle for less!

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Conclusion

- Employer and trustee responsibility to empower members with basic yet vital information
- Members to understand what you are trying to achieve = goal
- Formulate a plan to achieve your goal
- Monitor your progress on an ongoing basis
- Practice real financial freedom daily

A blurred cityscape at dusk or dawn. The sky is a mix of blue and purple, with some clouds. In the foreground, a multi-lane highway is visible, illuminated by streetlights, creating a warm orange glow. The city buildings in the background are out of focus, with some lights visible.

THANK YOU