



2022 PENSION LAWYERS ANNUAL CONFERENCE

Future of South African Retirement Funds



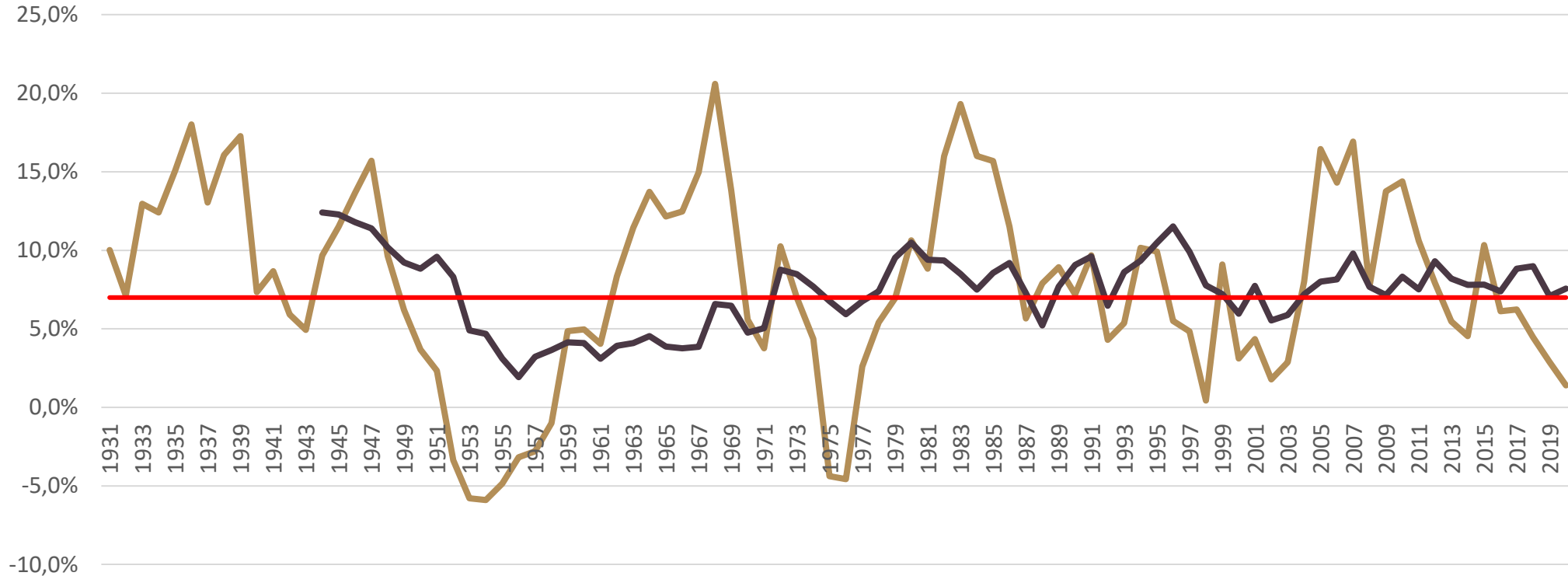
Advantage of Group Schemes

- State cannot be expected to provide for all benefits
- Traditional Retirement Plan
 - Information asymmetry
 - Bulk purchasing power
 - Risk pooling (inter and intra)
- Rule of Thumb – save 15% for 35 years to achieve comfortable retirement, assumes:
 - Reasonable returns
 - 35 years work
 - 20 year retirement

Setting some historic context



Long term real return on ALSI



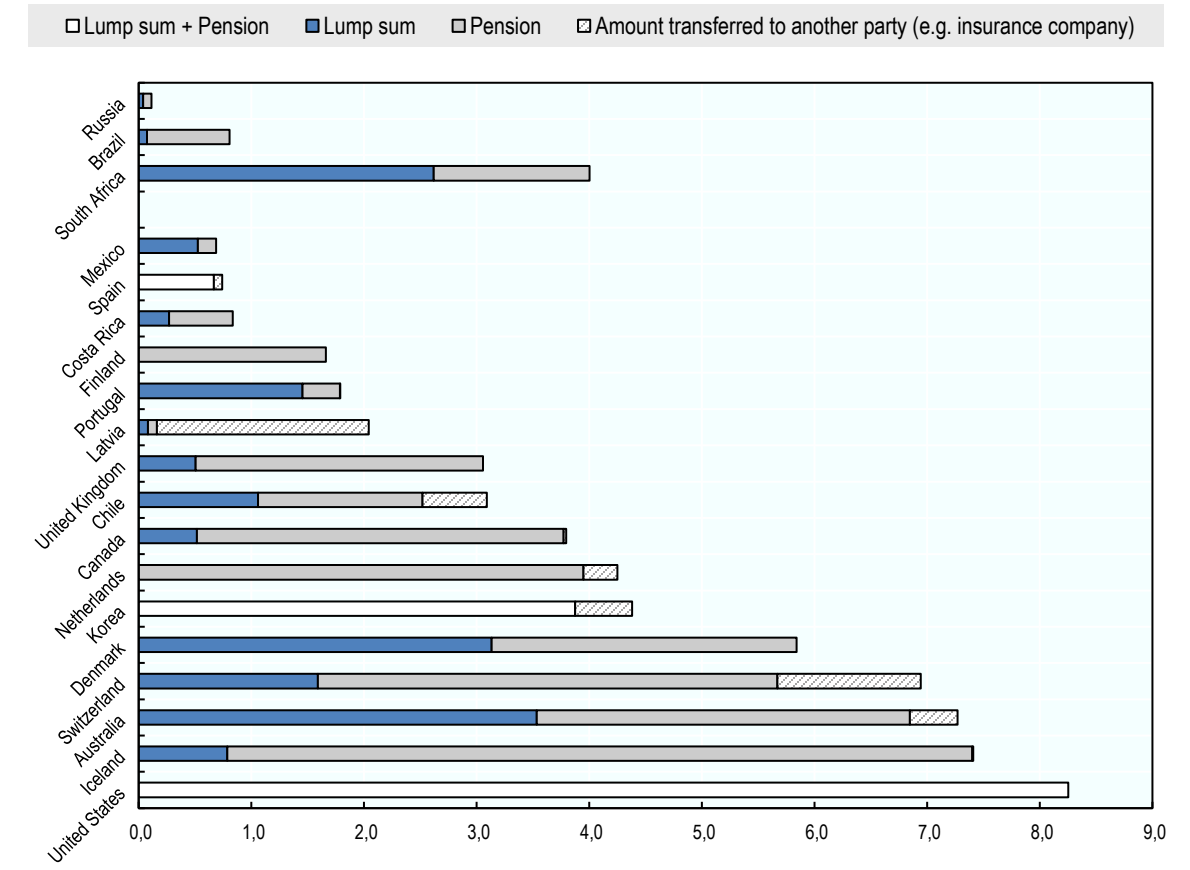
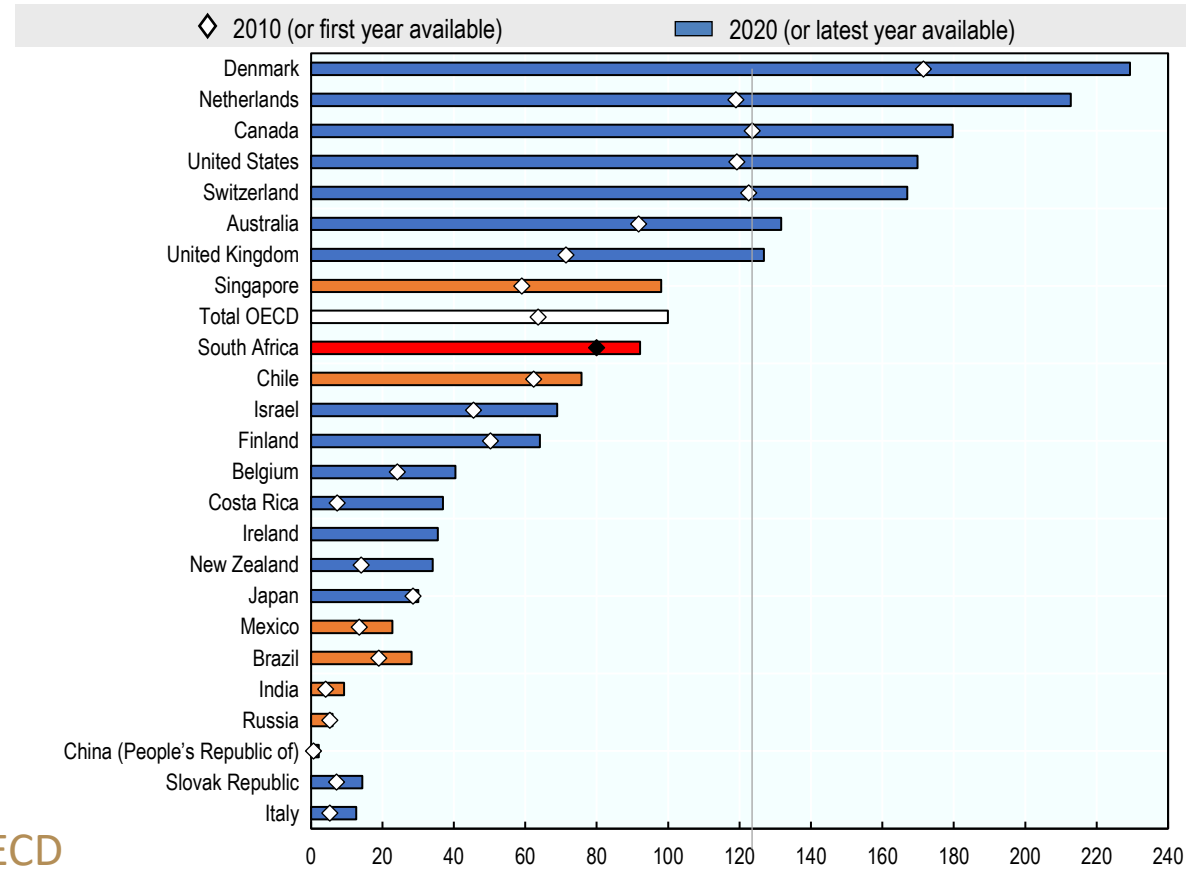
— 7yr moving Average — 20 year moving average — Long Term Requirement



Our funded pension system is globally competitive

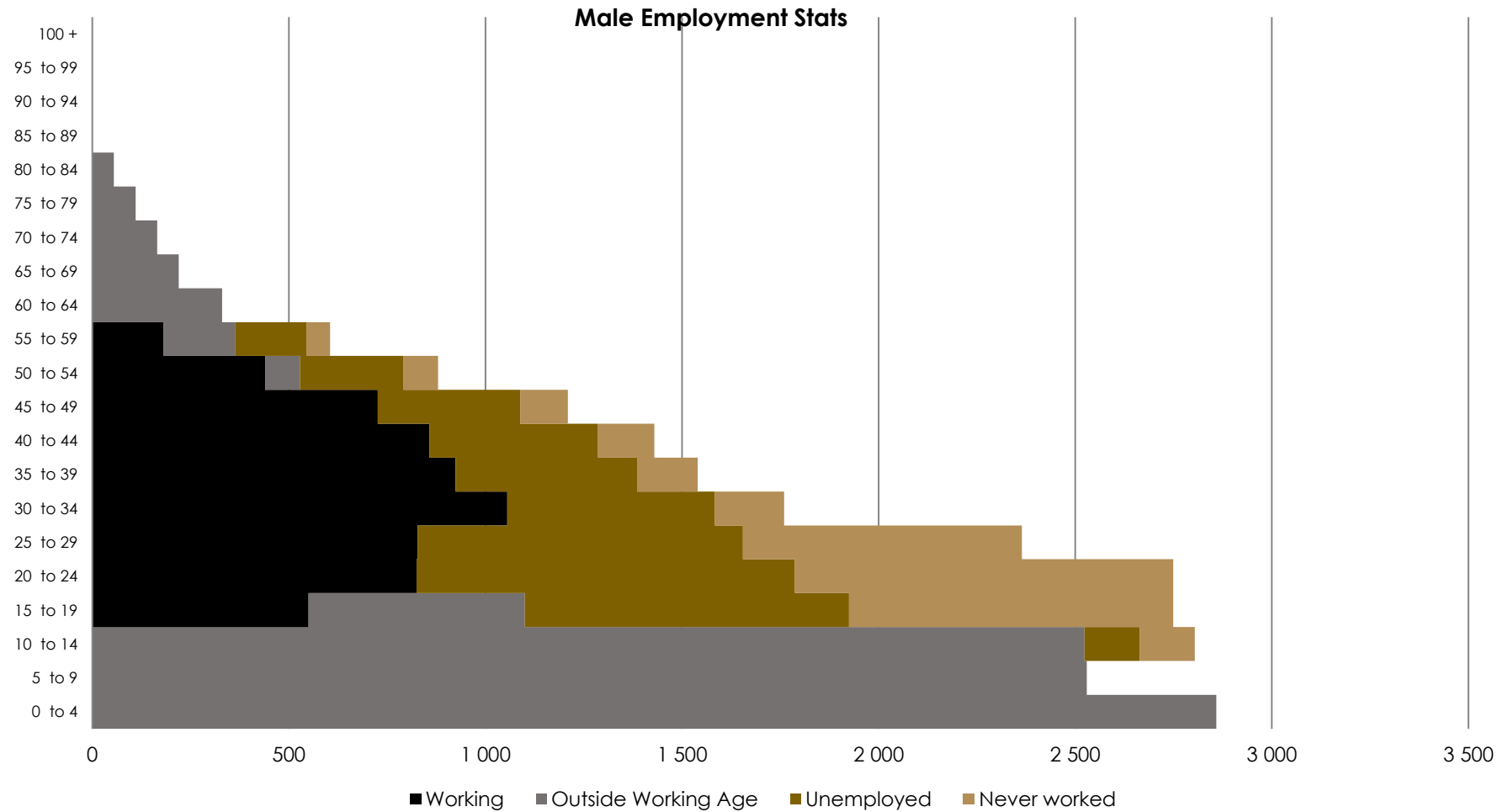
Total Assets in Retirement Savings Plans

Total Benefits Paid





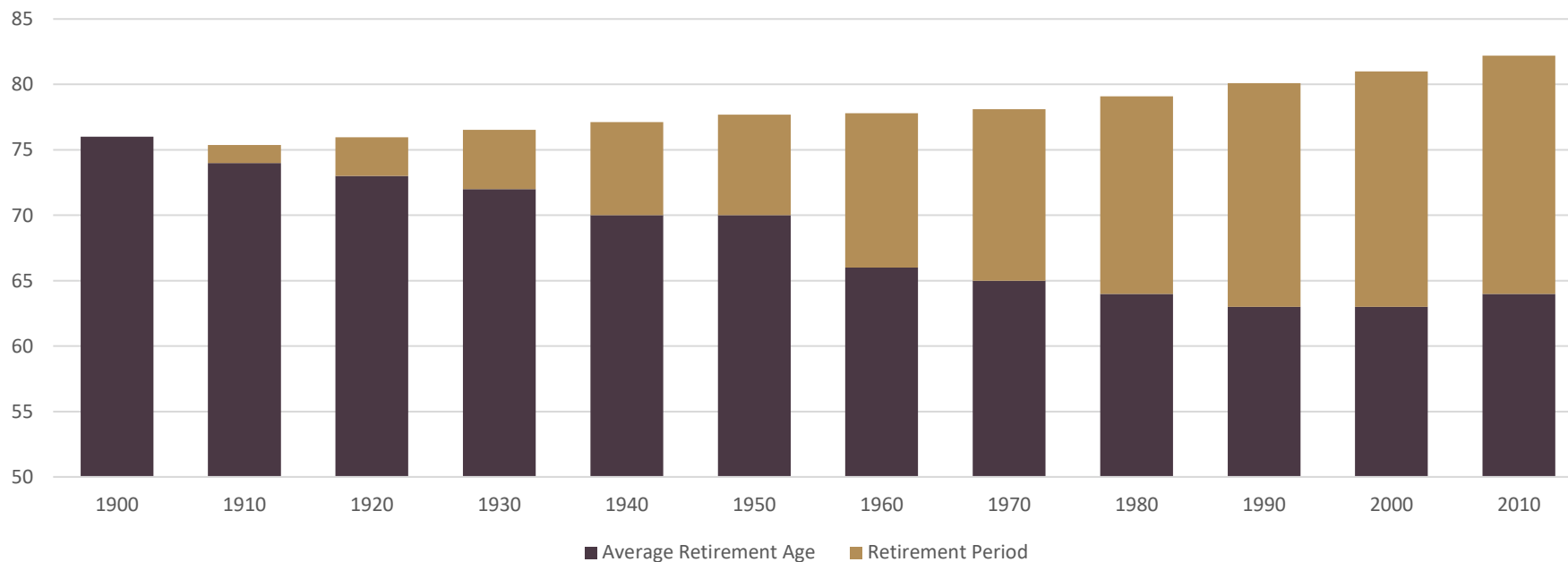
We have a real employment crisis





Retirement is getting longer

Total Life Expectancy at 65 in US considering Retirement



Urban Legend

Otto von Bismark set the retirement age at 65 (one year beyond life expectancy) in Germany to get rid of political rivals (moved to 65 in 1916)

A long retirement is a relatively new concept. At current mortality improvements the average retirement period for someone retiring in 2040 at 65 moves to 25.7 years

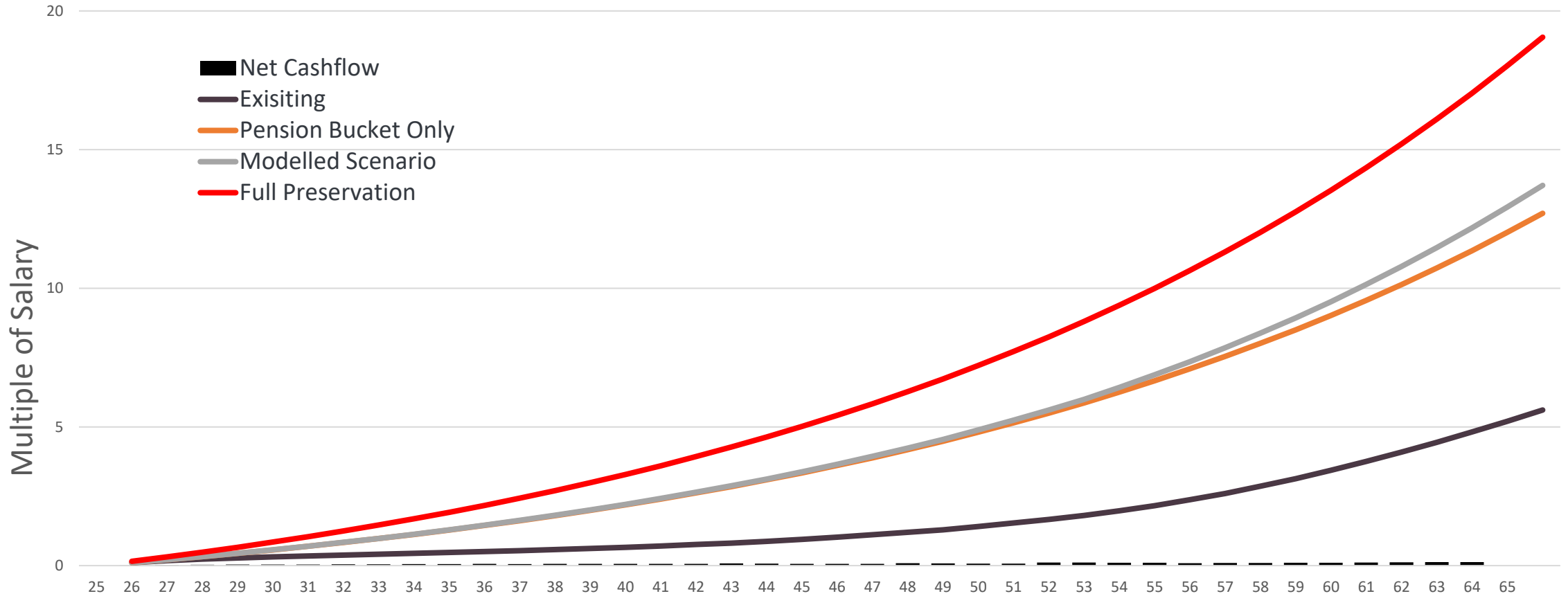


Ours is an informal and low wage coverage problem

	Numbers employed 2020 Q1 (‘000s)	Retirement fund Contributors		Non- contributors		Contributors as % of Numbers employed
		(‘000s)	%	(‘000s)	%	
Earnings (2021 prices)						
R0-45,000	5 406	657	9.4%	4 749	50.6%	12,2%
R45-90,000	3 932	915	13.1%	3 017	32.2%	23,3%
R90-350,000	4 372	3 042	43.5%	1 330	14.2%	69,6%
>R350,000	2 672	2 386	34.1%	287	3.1%	89,3%
Formal (non-agr/hhld)	11 282	6 553	93.6%	4 728	50.4%	58,1%
Informal (non-agr/hhld)	2 921	395	5.6%	2 525	26.9%	13,5%
Agriculture & Household	2 180	51	0.7%	2 129	22.7%	2,4%
Total	16 383	7 000	100%	9 383	100%	42,7%



2 Pots should improve preservation and outcomes



What future trends to watch



Tech advances shaping our future

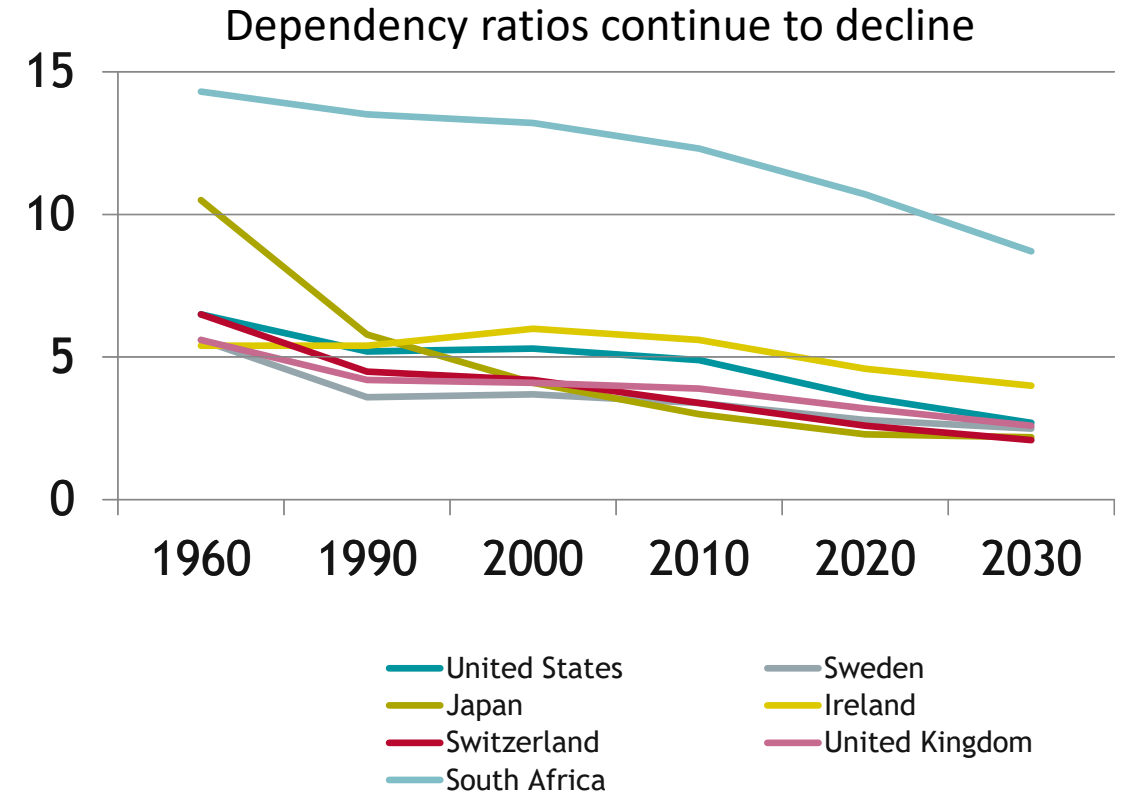
- Your health will be monitored 24/7
 - Your car will drive itself
 - Gene based treatments
 - Female retirement income will catch up to males
 - Probably taxed more too in retirement
 - Greater personalisation available given automation
 - Processing and client experience ripe for disruption
- Accident life cover
 - Fewer accidents
 - Preventative medicine



Fourth Industrial Revolution challenging social security

- Severely underfunded state social systems are at a breaking point
- Employers are backing away from traditional employment models
- Individuals once again are shouldering a larger share of the risks

- As longevity trends continue to increase and the threat of the automation of jobs becomes very real, the sharing of this risk needs careful rebalancing in order to minimize potential human suffering.





Fourth Industrial Revolution challenging work

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- Professional services
 - Financial services
 - General doctors
 - Any repeatable process requiring data
- Left brain jobs replaced by computers
- 47% of global workforce vulnerable to tech unemployment
- 65% of jobs still to come

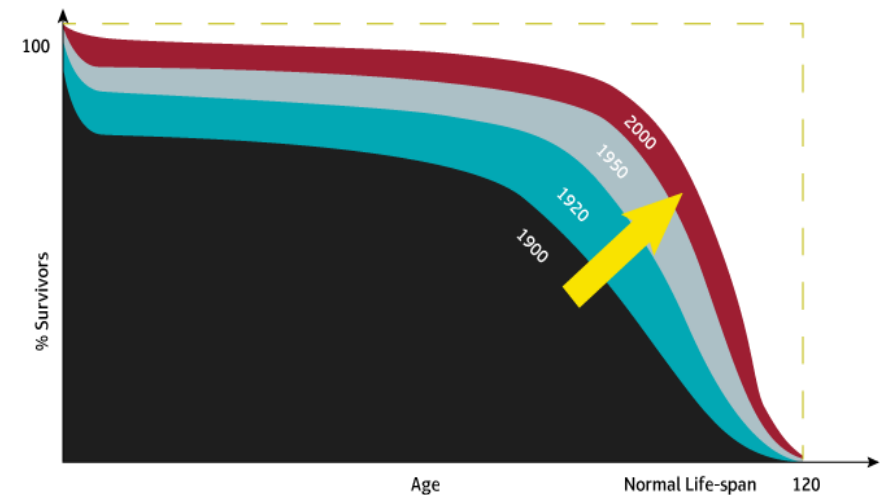
- Average S&P500 company lifespan dropped from 67 years to 15

Singularity University South Africa



Economic developments

- Globally workforce growth is slowing / negative
- Loss of skills, knowledge and experience
 - Flexible work
 - Flexible retirement
 - Delay drawing capital
 - Don't rely on government support
- Rectangularisation of mortality



“It’s difficult to fund a 30-year retirement from a 40-year career”



SA reality

- 66% youth unemployment
- 41% jobs susceptible to automation
- 39% core skills wholly different by 2030

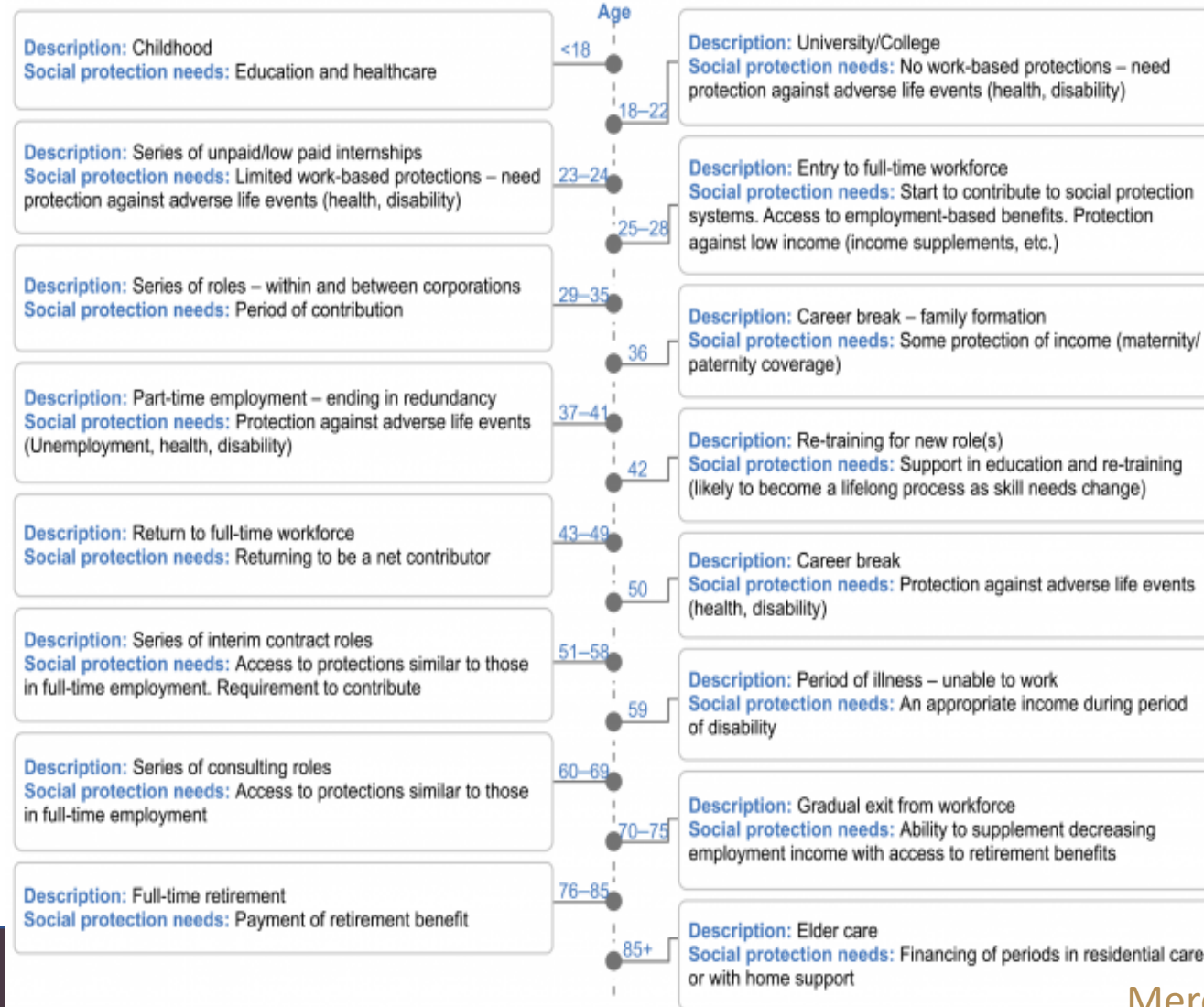
Deloitte Consulting

- Need social security for the older who can't be reskilled

Understanding the working lifetime



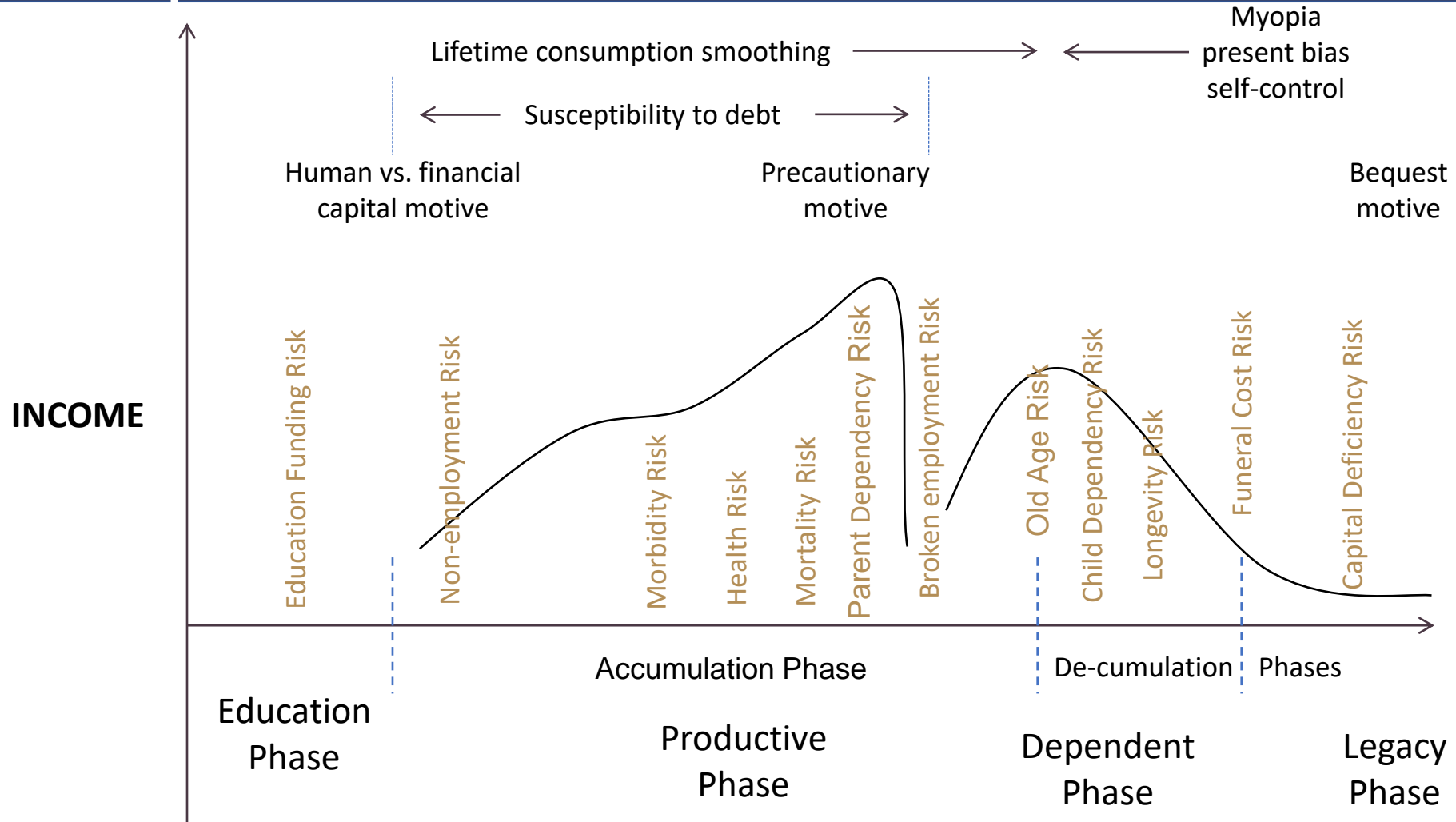
Reconsidering working lifetime



- Plan for multiple careers
- Consider multiple jobs
- Retirement is a process not a date

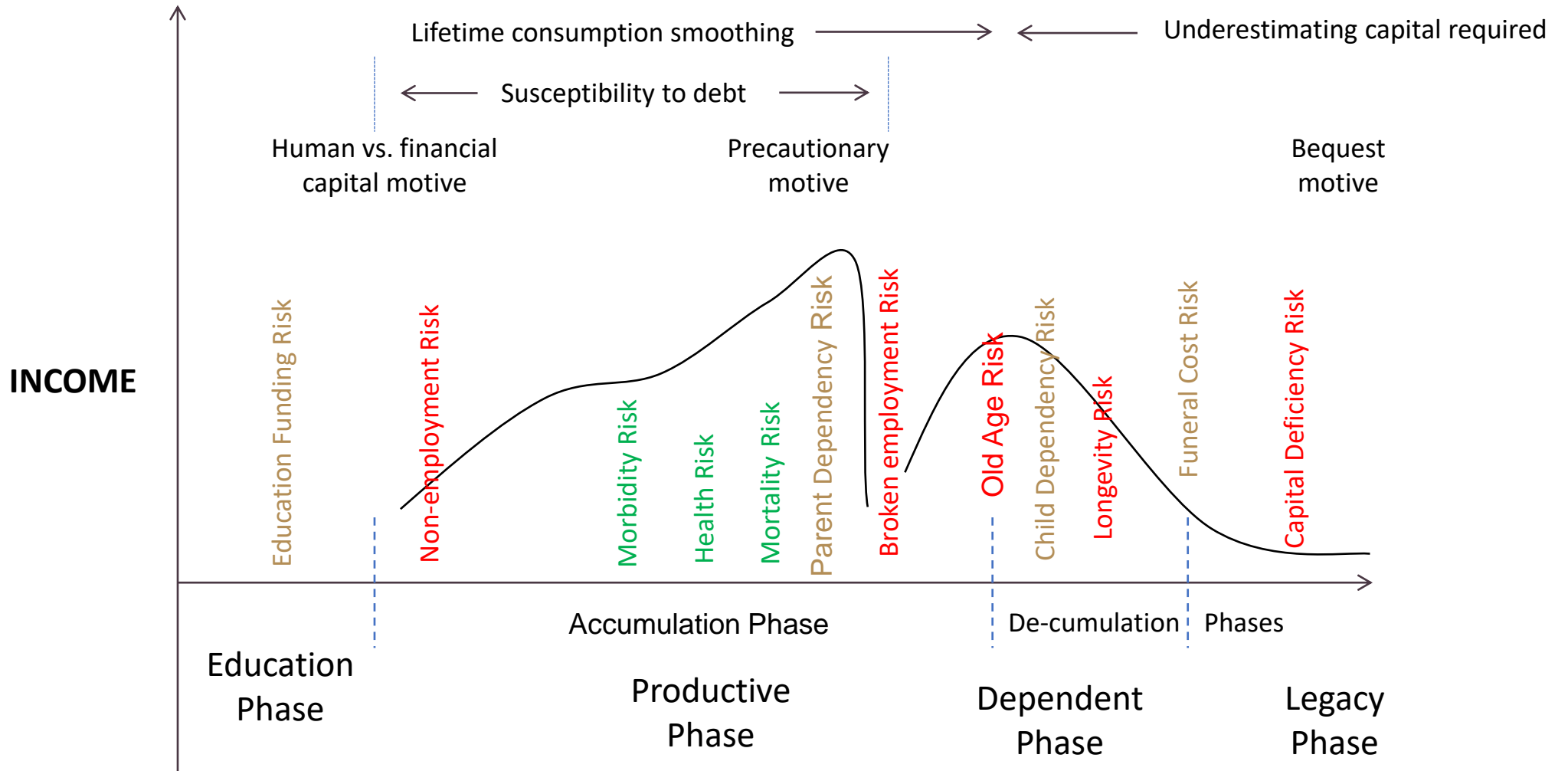


Similar risks still exist across lifespan





Risks are moving to older years





Four phases of retirement

- Pre retirement
 - Planning
 - Slowing Down
- Early years
 - Highest expenses (bucket list – travel, hobbies, entertainment, dependent children)
- Middle Retirement (10 yrs in)
 - Least expensive
 - Travel less, stay home more
 - Downsize home
- Later Years
 - Health & care expensive

Hybrid draw down / annuity solutions required to address the different stages



Taylor review of Modern Working Practices (UK)

1. Goal of good work for all,
 - there should be a fair balance of rights and responsibilities, everyone should have a baseline of protection
 - taxation of labour more consistent across employment forms while improving the rights and entitlements of self-employed people.
 - Technological change will impact work and types of employment, but technology can also bring smarter regulation, more flexible entitlements
2. Platform based working offers welcome opportunities for two way flexibility and can provide opportunities. These should be protected and ensuring fairness between Worker (Dependent Contractor) and those legitimately self-employed.
3. The law should help firms make the right choices and individuals to know and exercise their rights. Reduce the 'employment wedge'
4. To achieve better work is not national regulation but responsible corporate governance, good management and strong employment relations within the organisation.
5. It is vital that everyone feels they have realistically attainable ways to strengthen their future work prospects and enhance the capabilities developed in learning
6. The shape and content of work and individual health and well-being are strongly related. For the benefit for firms, workers and the public interest we need to develop a more proactive approach to workplace health.
7. The National Living Wage is a powerful tool to raise the financial base line of low paid workers. It needs to be accompanied by sectoral strategies engaging employers, employees and stakeholders to ensure that people – particularly in low paid sectors – are not stuck at the living wage minimum or facing insecurity but can progress in their current and future work.

Bringing it to a pension fund discussion



What challenges the fund of the future?

- Need to break the employment dependency
 - How do we aggregate individuals?
 - How do we manage anti selection
 - Need to cater for irregular and multiple incomes
- What is the role of the employer?
 - Trusted intermediary (not in the legal sense)
 - Driver of the insurance program outcome
- How do we achieve income smoothing over lifetime?
 - Disability / illness
 - Retirement
 - Unemployment
 - Re-education



What does it mean for State intervention?

- State must be an enabler and only intervene when there is a market failure
 - Does not have the capacity to change quickly enough or the funding
- Encourage employment, favourable investment climate, healthy working conditions, financial literacy
- Greater support required at the lower income end
 - High levels of youth unemployment
 - Older workers becoming redundant prior to saving sufficiently
- Attempt to equalise the treatment of informal and formal work

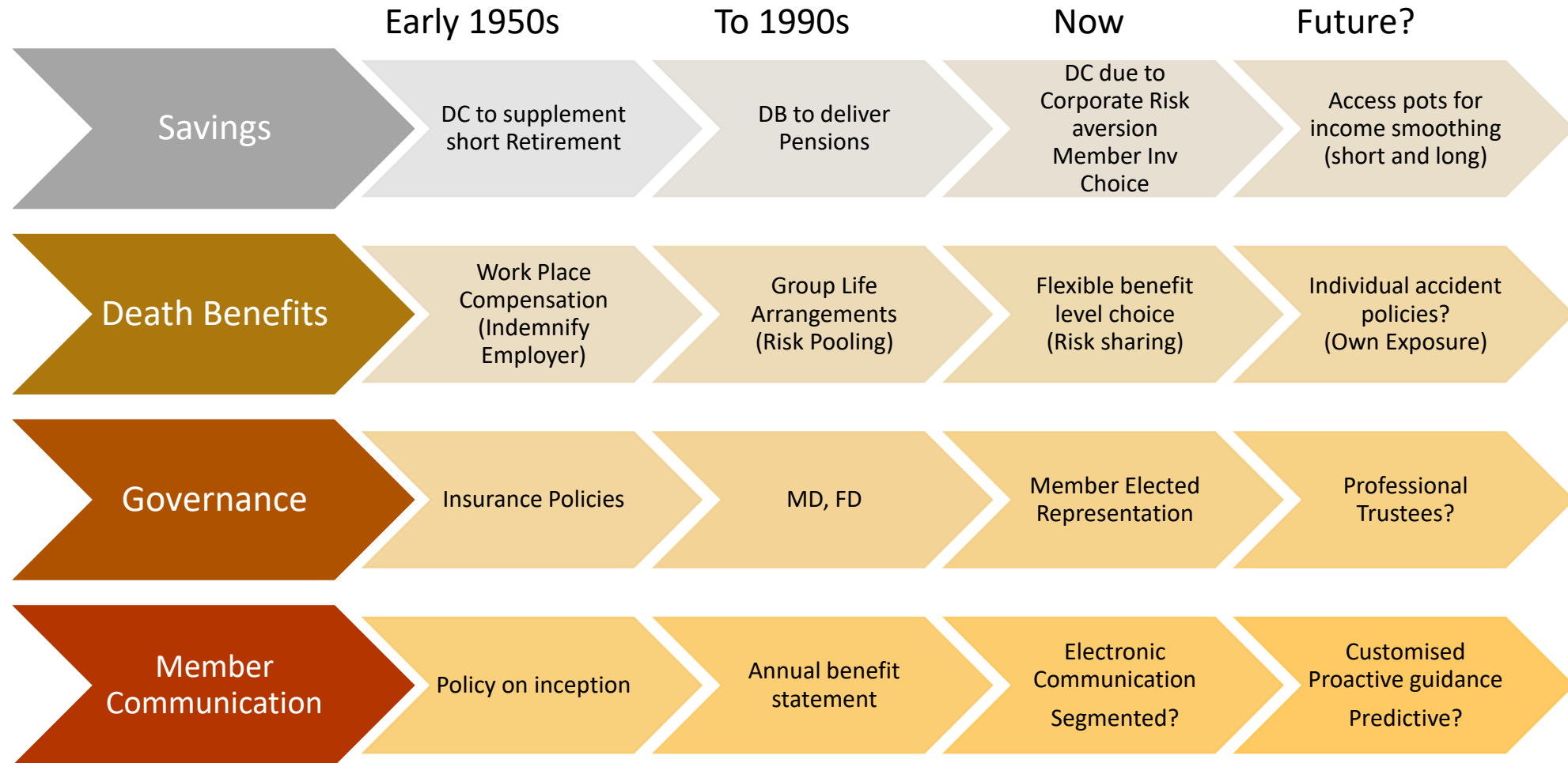


What should stakeholders be doing?

- **Policymakers:**
 - Be more innovative.
 - Help people create better savings plans that make sense for the way we live and work in the 21st century.
 - The pension plans from the last century will not work anymore.
- **Private sector:**
 - Be more inclusive and equitable.
 - Make financial products for all of society, not just the wealthy. Gig workers, stay-at-home moms, and lower-income workers all need savings options.
 - Update your financial literacy plans for this new demographic reality.
- **Individuals:**
 - Be bolder. This is the time to rethink everything. Don't be afraid to pivot and change careers or learn a new skill. There are thousands of courses, certificates, and degrees that can be obtained online at very low cost.
- **Society:**
 - Be kinder. Stop promoting ageist stereotypes that depict this demographic change as a problem. A longer lifespan with more choices in how we fill it is a privilege. Whatever challenge it presents to our long-held beliefs or established systems for things like retirement saving is also an opportunity to expand our sense of what's possible for ourselves and for policies covering practical needs—like a better savings plan for all citizens for the next century.



How might the trends unfold?





Potential red herrings

- Individuals selecting own customised ESG portfolios
 - No consistency and undermines scale
- Retailisation
 - Until we believe in the bots
 - And IFAs are willing to work at scale
- Fintech disrupting the entire value chain
 - Not enough perceived cost saving
- Growth in pension fund infrastructure investment
 - We have to solve liquidity concerns first

THANK YOU

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investments

