



QUANTIFYING RISK, ENABLING OPPORTUNITY

Retirement Fund Industry – Social Security
Potential outcomes and positioning for the future

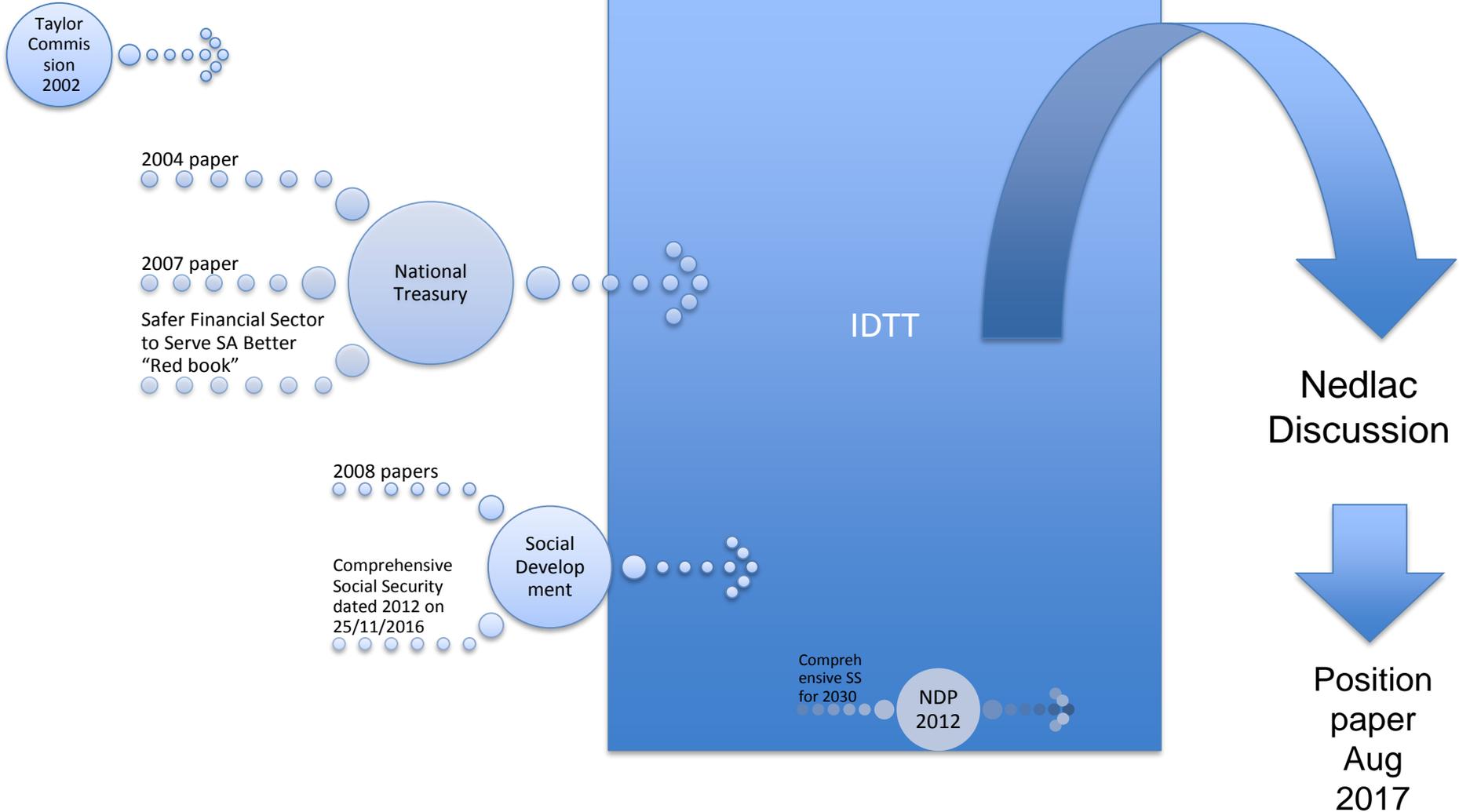
Rowan Burger
April 2017



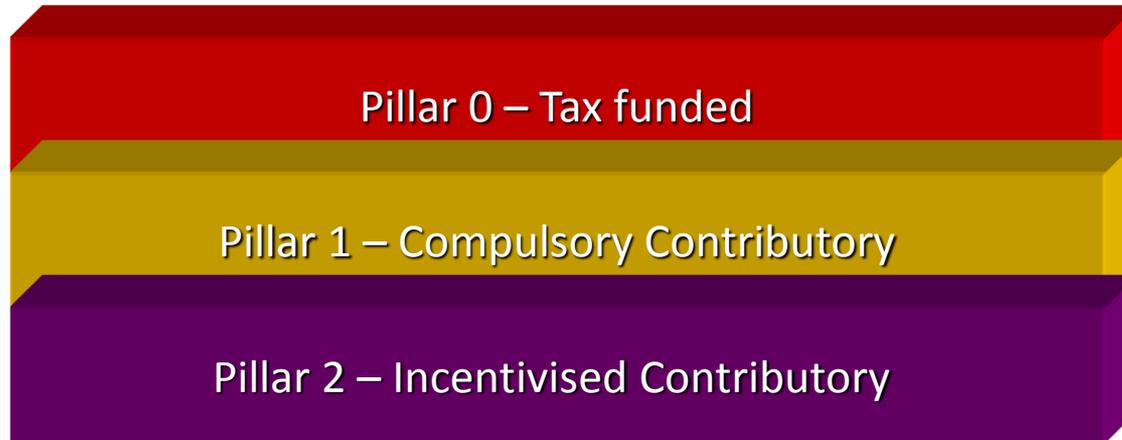
Disclaimer

- Views of the presenter
(not the Society, his Company, his family)
- Will try to be as apolitical as possible
- Unashamedly work in business and believe they have a strong role to play
- Many generalisations to deliver simplicity of message – devil is in the detail

Roadmap

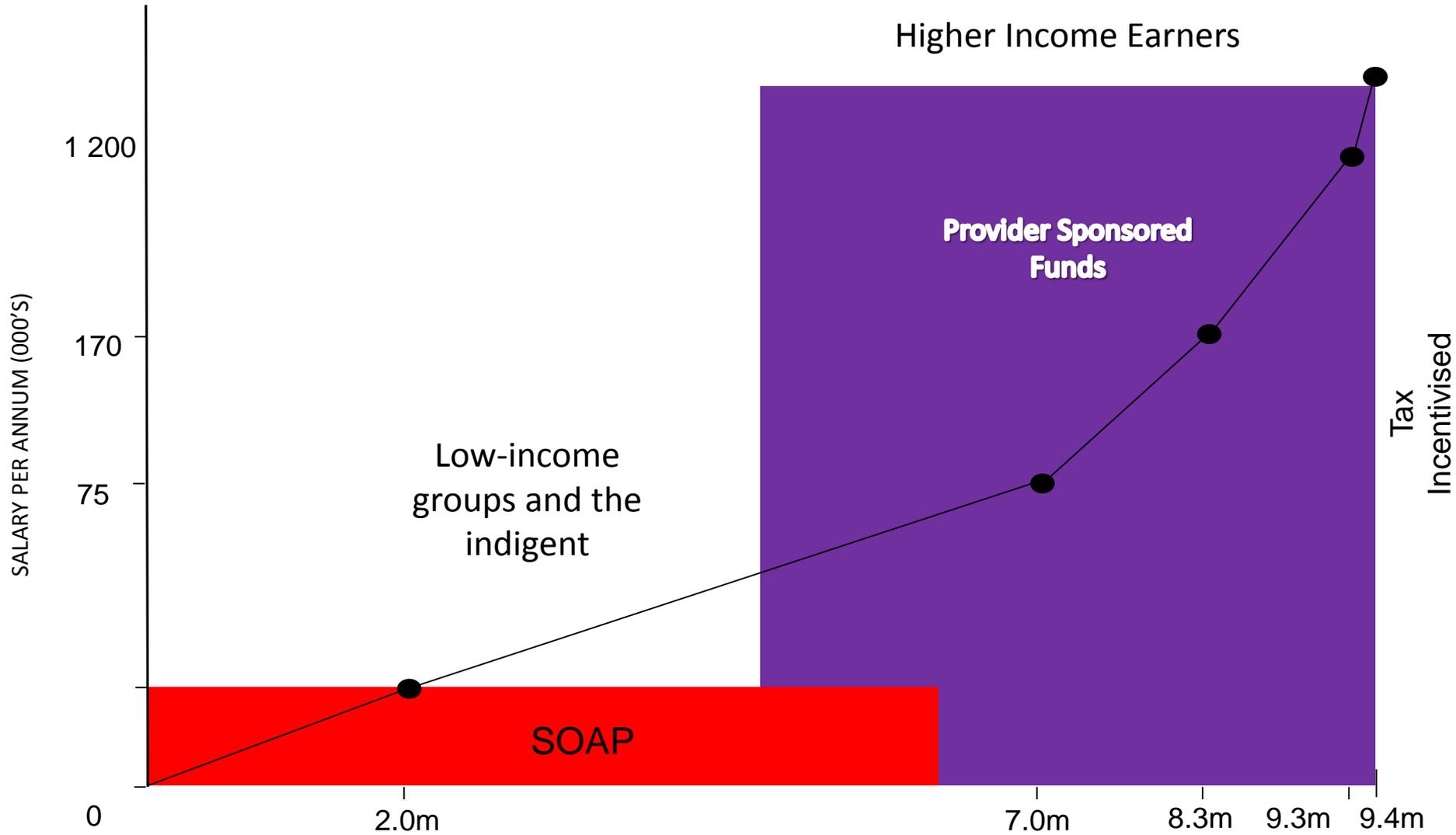


Showing the Scenarios Graphically

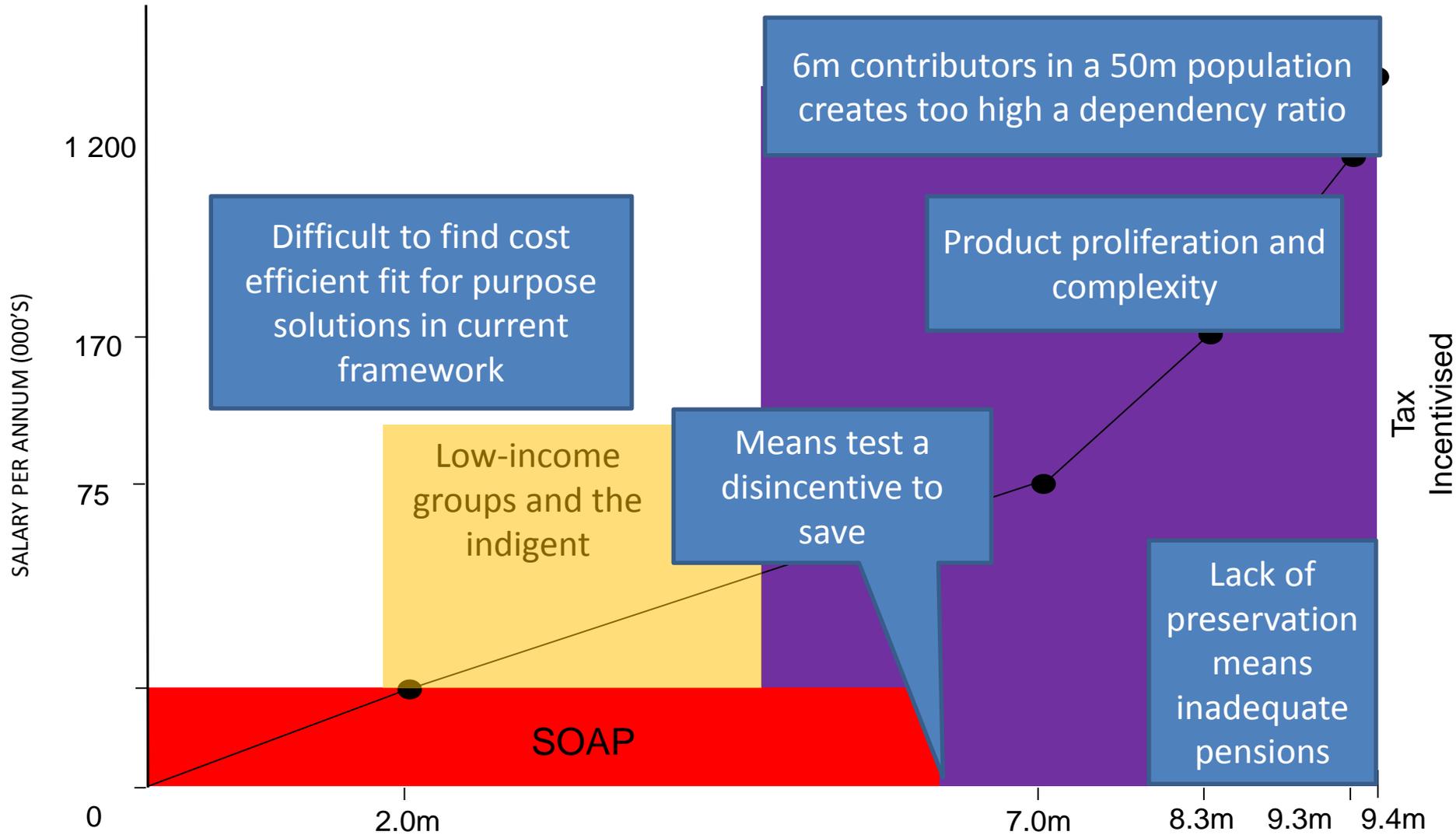


- Based on old salary levels and workforce participation numbers
- Does not consider adequacy and therefore extent of need for discretionary savings to top up
- Key detail variations which significantly impact diagram:
 - Introduction of tax deductibility ceiling
 - Choice of fund the member's or affinity group's
 - Participation is incentivised or compulsory

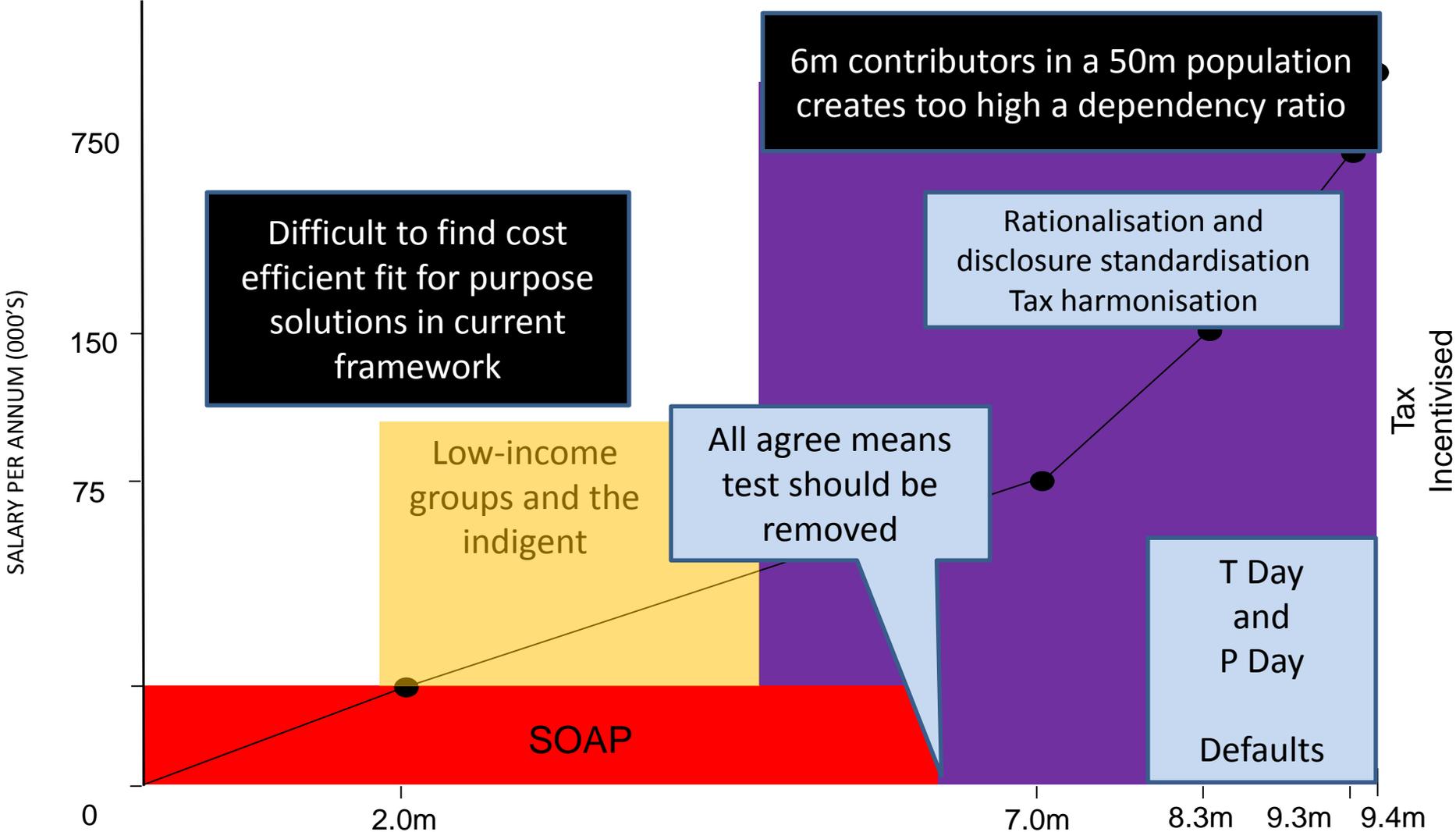
Existing Framework Graphically



Problems in the System



Short term solutions



Actuarial Call to Arms!

6m contributors in a 50m population creates too high a dependency ratio

Difficult to find cost efficient fit for purpose solutions in current framework

- Liquidity for low income earners a priority
- Tax incentive non existent – wage subsidy
- Distribution too expensive
- Trust in system

- How do we demonstrate investment equals jobs
- Create a sustainable system
- Concepts of equity not well understood and need to be better articulated
- Acceptable solidarity and cross subsidisation

Broad Categorisations

Union driven mega funds

Social Insurance



Paternalistic

Customisation

Efficiency



Individualism

Commercial funds

National Savings Scheme

Scenario Details

Large industry type funds (11?)
Cross subsidised benefits (Solidarity)
Compulsory membership

One large fund
General safety net targeting NRR 40%
One size fits all
Compulsory membership
No tax incentives
Comprehensive integrated social security benefits

Paternalistic

Customisation

Efficiency

Large commercial industry run funds with portability
DC like benefits
Tax incentivised or subsidised
Other social security benefits provided elsewhere

Central Fund template
SARS key admin player
Protected DC like benefits
Compulsory membership

Individualism

Proponents of Each Scenario

Union Preferred Route

Control of members through ability to govern their key assets
Strengthen union movement and build membership and fees

Social Development Option

Move to a system of national social insurance
Populist political move

Service Provider Route

Least disruption to existing system
Ability to run system on a commercial basis
More consistent with developed world solution

National Treasury Preferred Option

Deliver cost efficient benefits to citizens
Leverage off scale for saving and insured benefits
Maintain existing capital markets and players

Paternalistic

Individualism

Customisation

Efficiency

Reform Priorities Addressed in each Scenario

Union Mega Funds

1. Collective Funding
2. Mandatory Participation
3. Solidarity
4. Adequacy

× Access to All

Social Insurance

1. Solidarity
2. Access to All
3. Mandatory Participation
4. Collective Funding

× Affordability

Commercial Funds

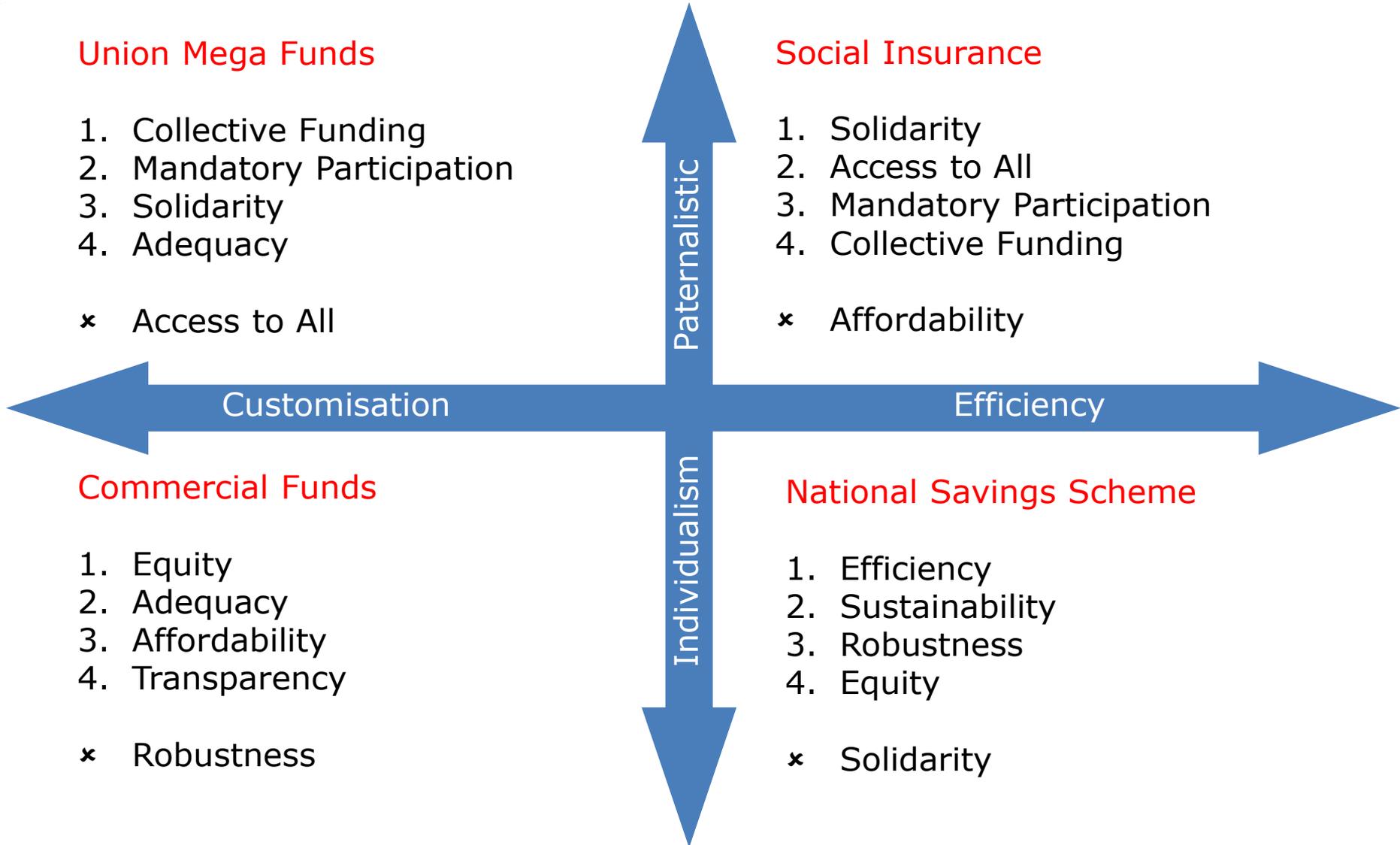
1. Equity
2. Adequacy
3. Affordability
4. Transparency

× Robustness

National Savings Scheme

1. Efficiency
2. Sustainability
3. Robustness
4. Equity

× Solidarity



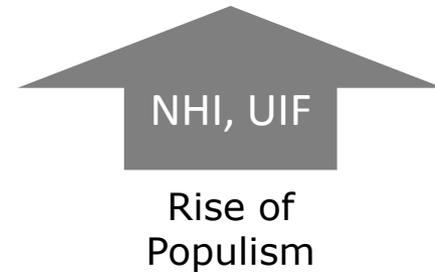
Probabilities of Each Scenario

Union Preferred Route
15%

Following rather
than leading debate



Social Development Option
60%



Customisation

Efficiency

Paternalistic

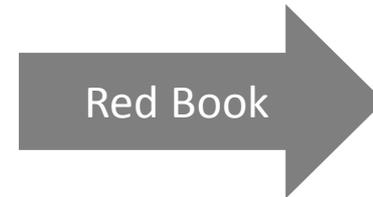
Individualism

Service Provider Route
10%



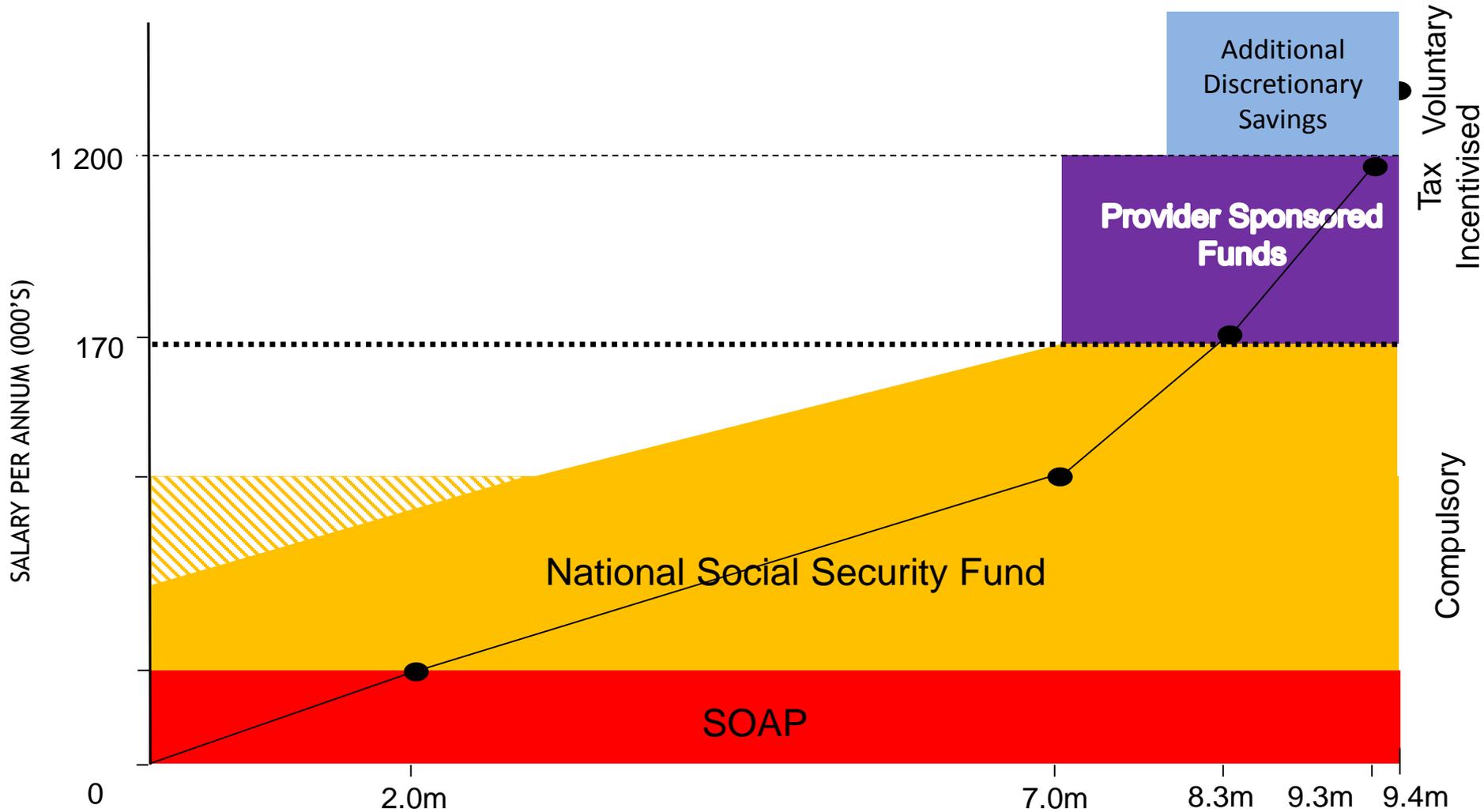
Driving many of required
changes to address
accepted problems

National Treasury Preferred Option
15%



Thought leading, but
politically weaker

Current Proposal at Nedlac



Key Flags to determine likely outcomes

- Change to chair of IDTT or creation of new government pensions ministry
- Stronger and more vocal union lobbying activity
- Recovery of government fiscal position to fund creation of necessary vehicles and incentives
- NHI takes a lower priority than Retirement reform
- Labour vs Business struggle on the formalisation of employment
- SADC agreement on minimum social security standards applying across borders
- Roll out of new identification system for all earners (social security numbers)
- Changes to GEPF benefits to align with future changes
- Arrival of a political champion to drive reform
- Creation of SARS central collection agency

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Likely outcomes regardless of scenarios

- More members and assets (not PAYG!) in the system, either through compulsion or incentivisation
- Greater preservation of benefits pre and post retirement, creates larger benefits and less churn
- Fewer commercial funds in existence, key to survival is achieving scale efficiencies
- Less ability to differentiate on product design
- Greater solidarity and cross subsidisation in the insured benefit rates
- Drive to deliver cost effective solutions results in margin pressure
- Consolidation and simplification of system
- Greater need to integrate employer sponsored benefits with retail solutions

Strategies likely to be successful

- Reduce the cost of product delivery
 - Efficient systems
 - Large memberships
 - Environment will become more complex dealing with legacy and new vehicles. Key differentiator will be the ability to simplify and integrate solutions for end clients
 - Blurring of the institutional and retail offering
 - Ability to integrate more employee value propositions and deliver these holistically and demonstrate value to all stakeholders
- OR
- The employer is no longer relevant, deliver retail solutions at institutional pricing



Conclusion

- This is happening faster than you think
- Decisions often made in an information vacuum
- Need to be able to better articulate the trade offs
- Need to better educate our stakeholders as to the consequences

ACTUARIAL
 SOCIETY
OF SOUTH AFRICA

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