

Media Release
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South African retirement income framework appeals to German actuaries

German pension actuaries grappling with the far-reaching implications of pension fund reform legislation introduced by their country earlier this year have turned to a practical retirement income framework authored by two South Africans for solutions.

Well known South African actuary, John Anderson, presented a paper outlining the framework at the recent International Congress of Actuaries (ICA 2018) in Berlin. Anderson, who is Head of Group Client Solutions at Alexander Forbes, co-authored the paper with Steven Empedocles from Sygnia Asset Management.

So impressed were the German actuaries with the paper titled “The retirement income frontier and its application in constructing investment strategies at retirement”, that the German Institute of Pension Actuaries (IVS) acknowledged the authors with a special award for jointly producing an industry related paper on pensions that is relevant and of interest to German pension actuaries.

Mike McDougall, CEO of the Actuarial Society of South Africa, says some 364 actuarial papers and presentations were delivered at ICA 2018 to some of the world’s leading actuaries.

“To be picked for a special award by actuaries from the host country is significant since it shows that South African actuarial skills are rated highly by the rest of the world.”

The paper was first presented to South African actuaries in 2016 at the annual Convention of the Actuarial Society of South Africa, where it was awarded both the RGA prizes for Best Paper and Best Paper by First-time Authors.

Anderson explains that given the impact of the framework outlined in the paper on the South African retirement fund industry, it was decided to revise it to make it relevant to an international audience facing similar challenges as more countries move from defined benefit to defined contribution pension systems.

“I am very pleased that international actuaries appreciated our insights based on two decades of South African experience where we have witnessed individuals make inappropriate decisions when converting their retirement balances to income at retirement and where all stakeholders in the industry have worked jointly on ways to improve these outcomes in practice.”

South Africa moved away from defined benefit pension plans to defined contribution plans some 20 years ago. Germany, on the other hand, is currently in the process of migrating to company pension schemes where the employees carry all the investment risk. Therefore, helping retirees make the right decisions has become a priority for German pension actuaries.

The paper co-authored by Anderson and Empedocles proposes a practical framework to guide pensioners converting their accumulated savings to income, providing an optimal trade-off between income sustainability and legacy potential.

A combination of actuarial science and behavioural economics, the framework and model can be used by advisers to recommend optimal investment strategies to retirees. Benefit consultants and pension fund trustees can apply the models and insights to structure their default annuity strategies to comply with the National Treasury's default regulations.

Anderson says the framework and model has already played a significant role in innovative product design by a number of South African retirement product providers, resulting in hybrid structures that combine the benefits of both living and life annuities in a single product.

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