



Retirement Fund Solutions



The 2011 Retirement Reform Conference

(A summary of trends in the retirement funds industry – compiled by Louis Theron, director: support services)

Key changes to the pensions environment in South Africa, some of which are likely to also manifest in Namibia, can be summarised as follows:

- Legal environment
 - Minimum prescribed benefits
 - Valuation methodology of funds
 - FAIS Act/ FIA
 - Regulation 28
 - More power to regulators, which means additional cost to funds.
 - Regulator moves to risk based supervision
- Employment environment
 - Changes in work force profile
 - Shorter terms of service
 - Higher staff turn-over/ pressure on administrators.
 - Many mini retirements (take cash)
 - More non- residents in employment /residents return only after retirement to home country
 - Skills challenges
 - A few changes in employee behaviour that do have an impact on retirement provision:

Boomers	Generation X and Y
Stable working world	Volatile working world
Mass production	Mass collaboration
Work till retirement	Job for now
Climb ladder	Lean career ladder (people move between jobs to climb ladder)
Stop studying/learning	Lifelong learning (employers allocate more funds to training which attracts tax benefits and give less other benefits).
Retire when reaching specific age.	Lifelong working (see no need to save for retirement – will continue to work and earn income).
Income/expenditure predictable after retirement.	Income/ expenditure not predictable (young people see predicted amounts, decide that they will not be in a position to accumulate enough and stop contributing)
Maintain living standard after	New living standard after retirement.

retirement	
Talent stays	Talent moves fast
Employer takes care of you for life	You have to take care of your own life
Accumulate big - leave behind	Accumulate big – spend big
Sacrifice now, reward later	Reward now, sacrifice later.
1 retirement – live life at end	Many mini retirements – live life now.
Structured packages with fixed allocation to retirement funding.	Cost to company – employee maximises take home pay.

- Business Environment
 - New types of fund
 - Unclaimed benefit funds
 - Beneficiary funds
 - Move from private funds to multi-employer fund
 - Challenge of member communication and education.
 - Closure of defined benefit funds
- Economic environment
 - Increase in informal sector (does not participate in current retirement fund products)
 - Expectation that pension funds contribute more and more capital for economic growth and upliftment.
 - Prescribed investments
 - Direct investing
 - Socially responsible investing
 - Higher investment cost due to reporting and governance issues.
- Political environment
 - Expectation that Governments must take responsibility for retirement provision via social schemes.
 - Regional integration of Southern Africa.

The area of governance of pension funds was also highlighted as an area on which trustees must focus more. This now forms part of most trustee training sessions and we can expect more requirements from both trustees and the regulator. Actions recommended:

- Ensure that all funds do have investment strategies
- Trustees must understand what they are investing in
- Save cost, measure performance (look at value you get)
- Environmental, social and governance considerations should be at the core of strategy

- Exercise ownership rights
- Do not just jump on member's choice bandwagon
- Keep fees and expenses under control
- Ensure that investment agreements are not just about fees
- Trustees must know the subject matter
- Communicate to member in such a way that they will understand

Further to the above a lot of emphasis was on data management. The opinion was that due to a lack of competition (in fund administration) and the long-term nature of administration contracts, inefficiencies regarding data exist (with risk related to it).

The trend is to establish a data management policy for each fund covering at least the following:

- Documentation of all data sources and flows.
- Organisational ownership of data sources.
- Defining data requirements.
- Controls over external data sources and collection.
- Data processing controls and quality monitoring.
- Internal and external audit processes
- Improvement plans.

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