SUSPENDED CONTRIBUTIONS, FEWER FUND MEMBERS, GREATER FOCUS ON WELLNESS

Sanlam Benchmark Survey has shown impact of COVID-19 on retirement in South Africa

South Africa, 22 June 2021: Sanlam today released the results of its 40th Benchmark Survey. The research showed the deep impact that COVID-19 had on the retirement industry, with 27% of stand-alone retirement funds and 41% of umbrella funds' employers having suspended retirement fund contributions last year. This resulted in an average suspension across all fund types of 4.5 months.

The Sanlam Benchmark Survey has driven thought leadership and collaboration in the industry for 40 years. This year, 90 stand-alone funds, 10 stand-alone union funds and 100 employers participating in umbrella funds were surveyed. The 10 union funds represented a total of R109 billion in assets and 512 200 members.

Additional key findings were:

- Since the implementation of default regulations, funds noticed an improvement in member behaviour with regards to the utilisation of retirement benefit counselling, but not necessarily an improvement in preservation and annuitisation.
- **57%** of stand-alone funds indicated that they had not seen an improvement in member preservation.
- In terms of benefit counselling, **69%** of stand-alone funds indicated that they had made greater use of retirement benefit counselling. This was also evident in the Sanlam Umbrella fund where one of the main drivers for the increasing preservation rate was believed to have been proactive retirement benefits counselling. A positive difference was seen in the choices made by members when counselled. Since the introduction of the default regulations in 2019, stand-alone funds providing advice at retirement had increased by **38%.**
- A positive outcome brought on by the pandemic was the increased propensity of employers to focus on the overall well-being of the employee. **Half of stand-alone funds** and **36%** of participating employers of umbrella funds believed a holistic integrated health and financial wellness programme delivers higher productivity and employee satisfaction. Other funds agreed that both health and wellness programmes were critical but addressed it through separate programmes.

- Members were impacted by the financial crises brought on by the pandemic. **One in three** funds experienced a reduction in workforce through retrenchments and liquidations. In addition, members had also experienced a reduction in expected annual increases, a reduction in current pay or had been forced to take sabbaticals without pay. Just under 80% of funds indicated that members experienced at least one of the above.

Kanyisa Mkhize, chief executive officer at Sanlam Corporate, says the pandemic has been a setback for South African retirement fund members and retirees. “The ultimate financial effect of COVID-19 was the reduced contribution level due to contribution suspensions. The industry also recorded an increase in the number of employees cashing in a significant proportion of their withdrawal benefits.

“Tragically, 7% of stand-alone funds are in the process of liquidation and no less than 40% of funds and employers have shared with us that their staff or members experienced a reduction in pay. 27% stand-alone funds and 31% participating employers cited retrenchment at the workplace,” says Mkhize.

Issues within the retirement industry have been well documented over the Benchmark’s 40-year history with findings repeatedly highlighting a lack of adequate preservation, leading to retirees not maintaining their lifestyle into retirement – and many unable to make ends meet.

“The industry could certainly not afford the pandemic, but it has happened, and it is time to regroup and work hard to improve the outcomes for South Africans. We cannot ignore the impact and the reality of the pandemic.

“Ultimately, our goal at Sanlam is to empower our members and help them live with confidence before and after they retire. Our strategy is to put the member firmly at the centre of everything we do – focusing on partnering with them to manage their retirement successfully, during and after their working lives,” said Mkhize.

FURTHER RESEARCH ANALYSIS:

Cyber resilience moving up the agenda

With more people working remotely, the risk associated with cyber fraud has been amplified. The 2019 survey highlighted the risk of cyber fraud and in response, the Cyber Resilience Benchmark was added to the research.

Funds and employers have been proactive in mitigating their risk. Most of the respondents said they had upgraded security software and increased security procedures, while only about 13% of stand-alone funds and only a small portion of participating employers of umbrella funds had purchased cyber insurance. It is expected that this number will grow in the future given the increasing prevalence of hackers targeting companies' customer and client data.

Fund consolidation accelerates

The consolidation of stand-alone funds into umbrella funds accelerated during the pandemic with the FSCA reporting 1 500 active registered funds in 2020, well down from the over 16 000 in the early 1990s.

Improved advice from default regulations

One of the key intentions of the default regulations introduced in 2019 was to improve retirement outcomes for members. A lot of work has been done in the industry to minimise the risk to members. Default regulations play a key role by focusing on default investment strategies, default preservation, annuity strategies and counselling on retirement benefits to improve member outcomes and behaviours.

At 94%, it is safe to say almost all stand-alone funds had trustee endorsed strategies in place; among umbrella sub funds, a slightly smaller proportion (85%) had such strategies. It was surprising that there were funds that reported not having such strategies given that legislation requires trustee-endorsed strategies to be in place.

Regulation 28 amendments

Over the years, the research covered some of the broader investment themes, namely Regulation 28, transformation and ESG. The Benchmark research looked at attitudes to infrastructure investments. Stand-alone retirement funds anticipated investing 6.6% of their assets, on average, in infrastructure while Umbrella Funds anticipated only 4.7%.

Mkhize says that the 2021 Benchmark research has captured the ongoing trends in the industry, along with the real impact of the pandemic on the lives and livelihoods of members. "It may be too soon to tell if these changes will have a lasting impact, but these insights allow us to reflect and build on as the industry evolves."

For more information on the Sanlam Benchmark, please visit www.sanlambenchmark.co.za

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