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SANLAM BENCHMARKET SURVEY: 16% OF RETIREMENT FUNDS HAVE MEMBERS WHO REQUESTED ACCESS TO FUNDS DURING LOCKDOWN

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South Africa, xx July 2020: On Wednesday, Sanlam released its 2020 Benchmark Survey, a comprehensive body of retirement industry research conducted by the group since 1981. With the state of retirement savings in South Africa directly impacting the economy and prosperity of citizens, trends and findings from the research have been instrumental in driving seminal and urgently needed change in retirement regulation over the past four decades.

This year's findings were released at our first-ever virtual version of the annual symposium event and included a close look at the impact of the COVID-19 crisis on retirement funds. Unsurprisingly, key findings included a marked rise in requests for funds and suspension of contributions over the past few months as well as sharp rise in queries around investment performance.

Empowering insights

Retirement funds have not been insulated from the impact of the lockdown on livelihoods and the subsequent drive by members to survive.

Over the course of the lockdown, we have found that over 25% of retirement funds have members who queried or complained about their investment performance or fund values; 16% have members who requested access to their retirement funds; between 8% have members who requested financial advice and about 5% have members who implemented investment switches, among other activities.

Suspension of retirement fund contributions

Many workers needed financial support because of the reduction or complete loss of their earnings during this period. We explored the role that retirement funds can play to solve the immediate cashflow needs of members. The most popular view was that a temporary suspension of retirement fund contributions was the best measure to take. 26% of employers/funds indicated that they had suspended retirement fund contributions and 91% of consultants had at least one client who had already done so. We anticipate that these figures would have increased since the survey was conducted.

A three-month suspension was the most popular period, followed by six or more months, which is indicative of the uncertainty of the return to normal. We expect many of these suspensions to be rolled over. On average, these suspensions provide net cashflow relief to individuals of R1 500 per month, contingent on contribution levels and tax brackets. The long-term impact of the suspension on outcomes is also limited and our calculations indicate a 1 to 3% impact on final fund values, based on a six-month suspension and conservative assumptions. In the context of meeting immediate needs, it seems that the suspensions are a relevant way to provide immediate relief without materially affecting long-term prospects. Employers who implemented this measure reported that gratitude was the most common response from their employees to this decision.

Impact on group insurance

On the issue of suspensions, we were pleased to find among consultants and employers, that very few had suspended group risk premiums given the amplified importance of appropriate coverage during a pandemic. Regarding group risk, the industry has undergone significant disruption over the past few years due to a deterioration in claims experience, resulting in a sustained pricing cycle of significant year-on-year rate increases. With the subsequent dual shocks of the healthcare impact of the pandemic and the contraction in the economy, claims and insurance premiums are most likely going to increase soon, adding further pressure to already constrained fund members.

Such increases are likely to be felt most acutely in the arena of disability income protection, which has been one of the product categories most aligned to the economic experience of the country. We anticipate that steep increases may well catalyse many employers to reconsider benefit structures, with a change from flat benefit structures to income tax scaled structures, noted as the most popular option. Alignment with the tax scales helps to control for the longevity of claims and will impact on controlling the costs of providing these benefits. Encouragingly, almost no respondents indicated that they would terminate their benefits due to price increases, demonstrating the critical role that such coverage plays in the lives of employees.

Investment volatility as the new normal

Given the truncated investment horizon of members, risk aversion displayed in practice and market volatility being a reality going forward – portfolios offering investment guarantees or smoothing may rise in popularity into the future. While potentially relevant across the age spectrum, such portfolios are clearly appropriate for members approaching retirement. It is at this stage of life that the typical retirement fund member has their highest accumulated fund value and therefore their greatest potential sum at risk due to market volatility. They would also, by definition, have the least time available to recover from downward movements.

While conservative balanced portfolios are often used in this end-stage, members are still exposed to the risk of market crashes, such as what happened a few weeks ago. Under these circumstances, shock results in fear that results in panic. The dynamic correlation between diverse asset categories narrows as prices begin to move together directionally, resulting in the potential for meaningful losses despite conservative asset allocation. It is, therefore, at this life stage where investment guarantees provide the necessary security to pre-retirees by protecting their capital whilst also providing significant exposure to market growth. From the research, 13% of consultants and 11% of employers/funds responded that they would consider introducing guarantees for pre-retirees.

Rebuilding South Africa's economy

When questioned on the levers available to rebuild South Africa's economy, the most popular option was the use of the large pool of unclaimed benefits in the industry to beneficiate poor communities. This is a promising and potentially responsible use of monies that are unlikely to be reclaimed by the majority of members. The three next most popular responses all related to applying the capital of retirement funds to impact society and the economy by increasing asset allocations to sustainable infrastructure development, ESG investments and alternatives. Prior to the pandemic, consultants highlighted that the most popular destination for impact investments would be towards enabling decent work and economic growth, with the impact of the lockdown amplifying the onus to focus on these outcomes. Note that the reintroduction of prescribed assets and taxation on retirement funds were the least popular options selected by participants.

The 2020 Sanlam Benchmark researched polled views amongst 140 professional employee benefits consultants and 230 representatives from employers and retirement funds during the lockdown to explore their experiences of the pandemic and their expectations of the future. This research was supplemented by a poll of 106 professional employee benefits consultants and focus groups of fund members and retirees conducted prior to the lockdown.

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