Glimmers of hope as investors start saving again

Employers are key to increasing retirement savings pots

02 February 2021: Hindsight is a perfect science. Looking back at 2020 it would have been impossible to predict that so many employees in South Africa would be forced to take remuneration cuts or make salary sacrifices due to tough times and the onset of a pandemic. Occupational retirement savings vehicles were one of the first savings avenues to be impacted when COVID-19 hit, with employers pausing contributions during the height of the pandemic as a way to "cut back" and improve cashflow to ensure business survival. Now, as 2021 kicks off, the trend is shifting, with many employers resuming retirement savings on behalf of their employees.

This is according to Saleem Sonday, head of group savings at Allan Gray, who says that there are "pockets of hope" in the group retirement savings space, which are indicative of employers feeling a little more upbeat despite the ongoing uncertainty.
"During last year we saw a range of different experiences across the country reflected in our group retirement offering and, importantly, not all of them signalled 'doom and gloom," says Sonday.

He notes that one of the positive take-outs, was that employers genuinely wanted to "do good" by their employees if they were in the position to do so.
"Many employers understandably suspended contributions on behalf of employees to hedge against the tough economic climate. Yet, in some cases, employers continued to make contributions, despite not being legally compelled to do so, so that employees would not fall behind in their retirement savings."

He adds that this proves employers take their responsibility to employees very seriously and are very aware of the setbacks experienced in 2020. "There is a balance that needs to be struck between the long-term survival of the business and its responsibility to its employees. Our regulator has done a good job in helping employers strike that balance with contribution holidays," explains Sonday.

"However, many employers are cognisant of their employees' future needs and, where they are able to, want to go above and beyond to increase the retirement coffers of their staff. This is encouraging, especially in light of industry surveys consistently indicating that fewer than 10% of South Africans are able to support themselves financially in retirement."
He adds that employers are therefore an important element in the mix to helping employees rebuild their retirement savings pots post-pandemic and get back on the savings track.
Currently, Allan Gray is receiving more requests from employers to un-pause accounts to resume retirement savings contributions, showing a favourable trend to return to savings. Initially, 15% of all employers suspended contributions; most of these employers have now resumed contributions. "This is a real, positive signal," Sonday notes.

Sonday says that employers are looking for "responsive" administration support where suspensions and unpausing of accounts can be processed quickly and efficiently.

“The pandemic is driving home the importance of having a retirement fund ‘on the go’; one that is agile and simple enough to deliver on the needs of its members when life’s unforeseen events happen, yet has the backing and experience of an established offering.”
He says that the pandemic also highlighted the importance of having an emergency savings fund. “The financial hardship and trauma of 2020 has placed a spotlight on the genuine need for emergency savings, which is an old financial planning construct, but the lived experience has driven this home more acutely.

“An emergency fund can act as insurance for longer-term investments, preventing investors from accessing money ear-marked for their future prematurely,” he concludes, noting that many employers may look at how they can support their employees in enabling this necessity in 2021.

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(Media release by Allan Gray)