

The benefits of an income-focused investment approach

ASSA Retirement Matters Seminar 2020

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CORONAVIRUS



Excessive government spending compared to income



Electricity supply crisis



Heightening geopolitical tensions



Failing state-owned enterprises



Credit-rating downgrades



Gloomy economy growth outlook



Inadequate retirements savings

“
There are no solutions,
only **trade-offs**...”

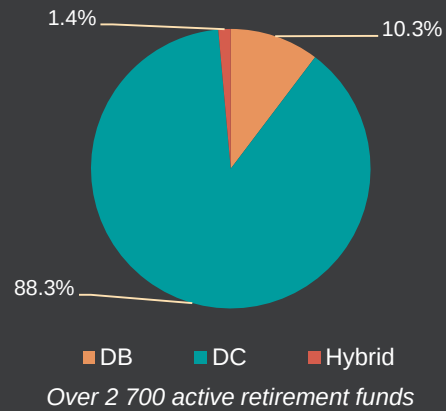
*Thomas Sowell,
Stanford University*

DC FUNDS ARE DOMINANT SOURCE OF RETIREMENT PROVISION

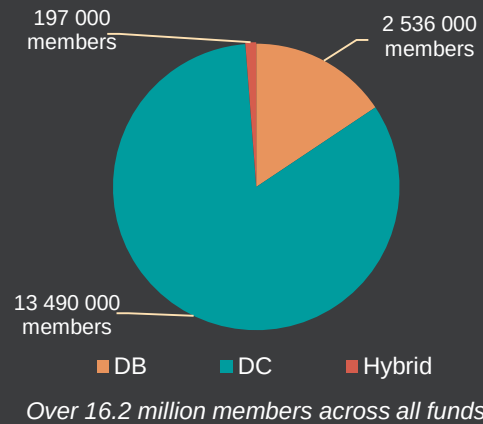


Source: Center for Retirement Research at Boston College, An Issue in Brief, October 2017, number 17-18.

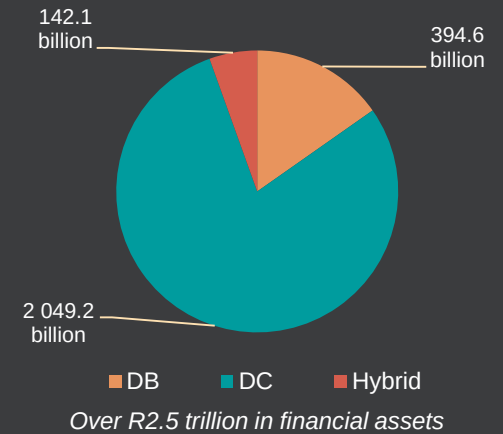
Retirement funds by type

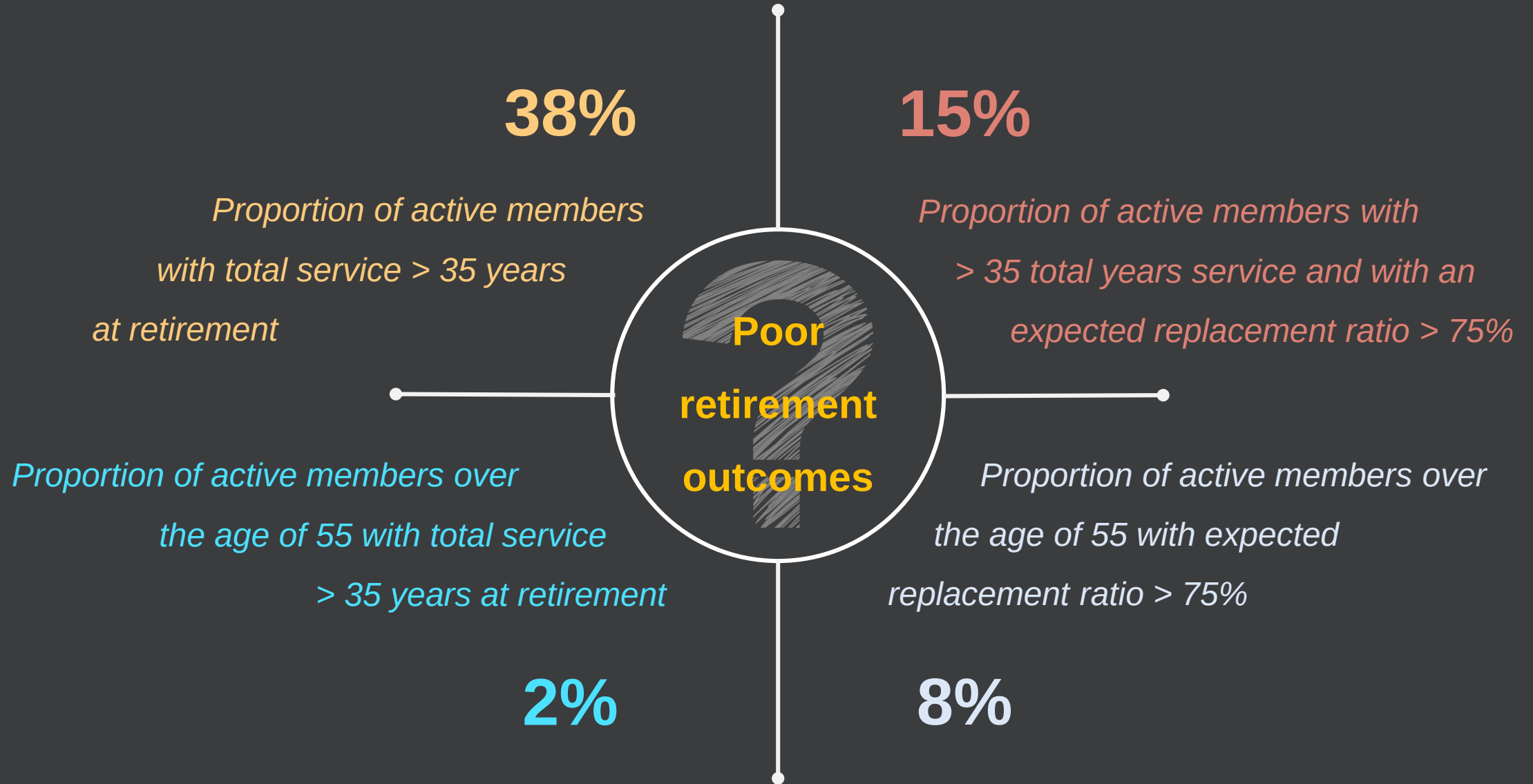


Membership of funds



Assets held in funds





OBSERVED BEHAVIOUR:

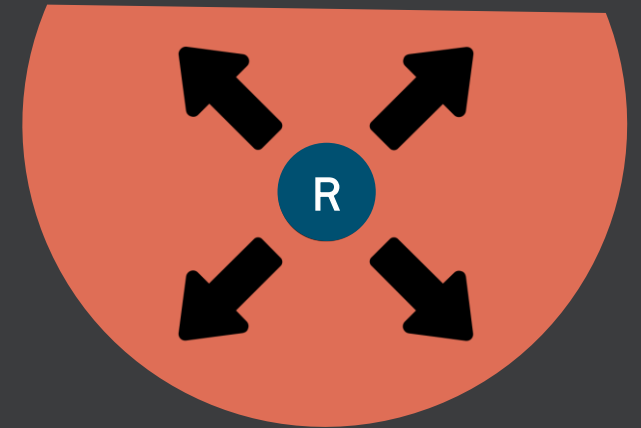
Insufficient
Preservation



Inadequate
Contributions



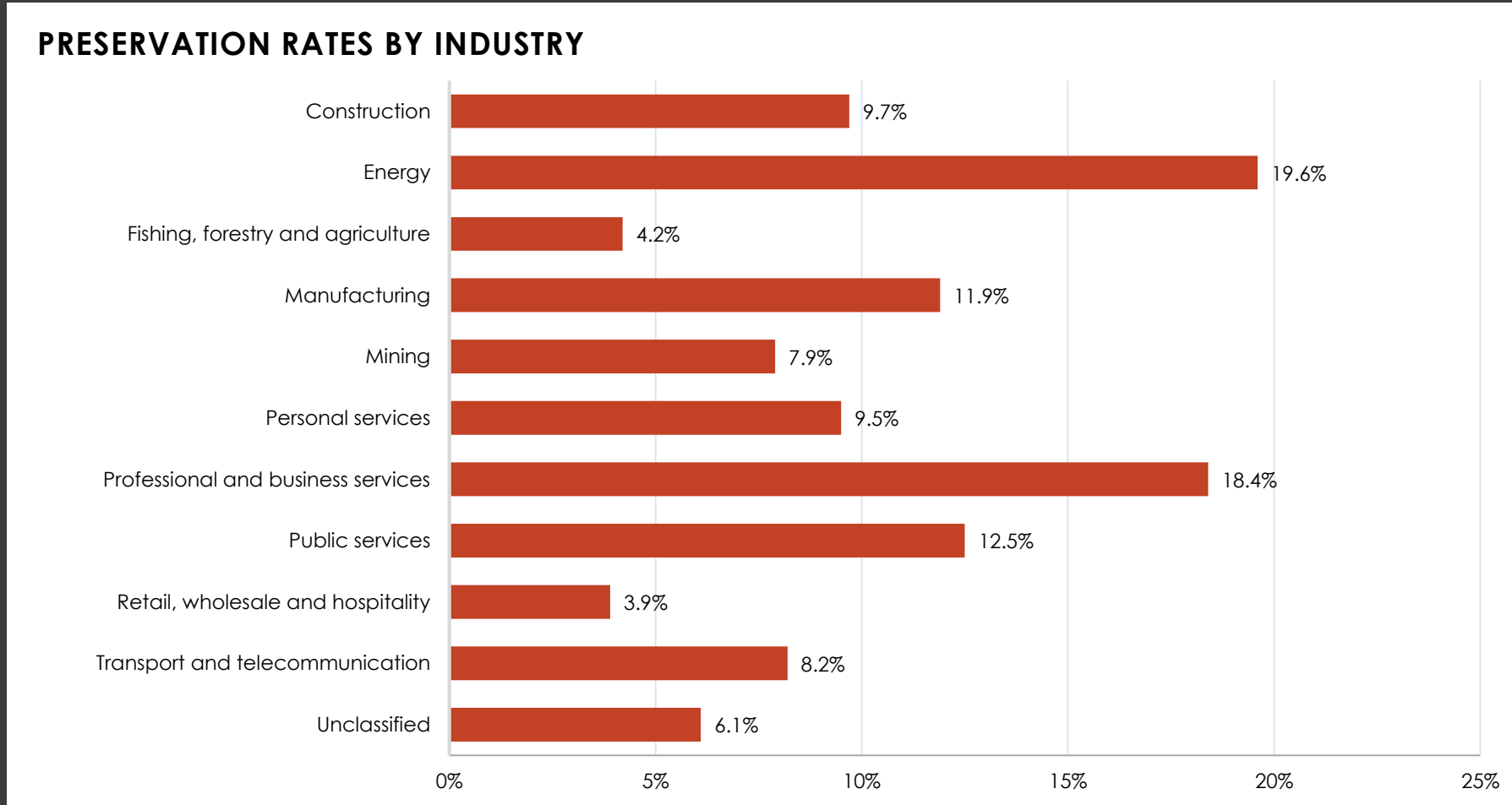
Investment Behaviour



Insufficient Preservation

Inadequate Contribution

Investment Behaviour



Insufficient Preservation

Inadequate Contribution

Investment Behaviour



Average member
contribution

5.0%

Average employer
contribution

9.2%

Average total contribution

14.2%

Average expenses
(death, disability and administration cost)

3.3%



Total average to
retirement fund

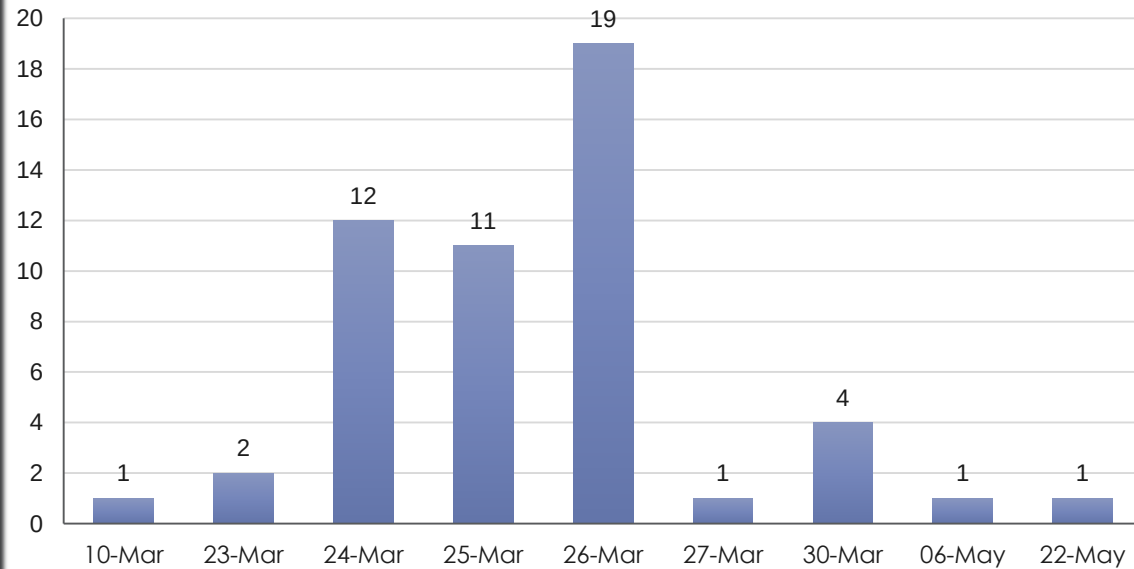
12.3%

Insufficient Preservation

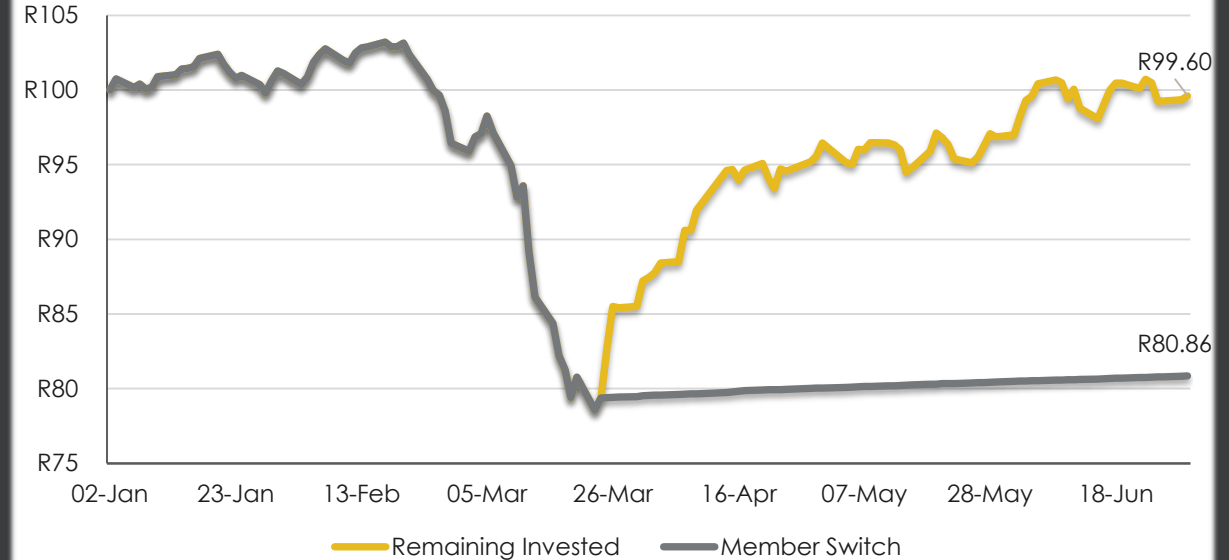
Inadequate Contribution

Investment Behaviour

NUMBER OF MEMBER SWITCHES



IMPACT OF SWITCHING FROM EQUITIES TO CASH





“

Sustainable income flow,
not the stock of wealth,
is the objective that counts
for retirement planning.

”

*Robert C. Merton,
Nobel Laureate in Economic Sciences*

Members may understand the **simple savings features** of a defined contribution fund, but **not understand the ultimate retirement income benefits** these savings relate to.

HOW TO INFORM DC FUND DECISIONS? THE CASE FOR AN INDIVIDUAL INCOME FOCUSSED APPROACH

Traditional Defined Contribution



Member age



Lump sum



Generic communication



Poor member engagement and understanding

What we ought to be doing...



Focus on retirement income



Consistent investment



Personalised targets and communication



Make the Fund's objective and operation understandable, relevant and differentiated from other savings

We can
manage DC funds around members specific
retirement income goals



Focus on
retirement income

Be able to
clearly articulate
the fund's main goal

- To members
- To trustees

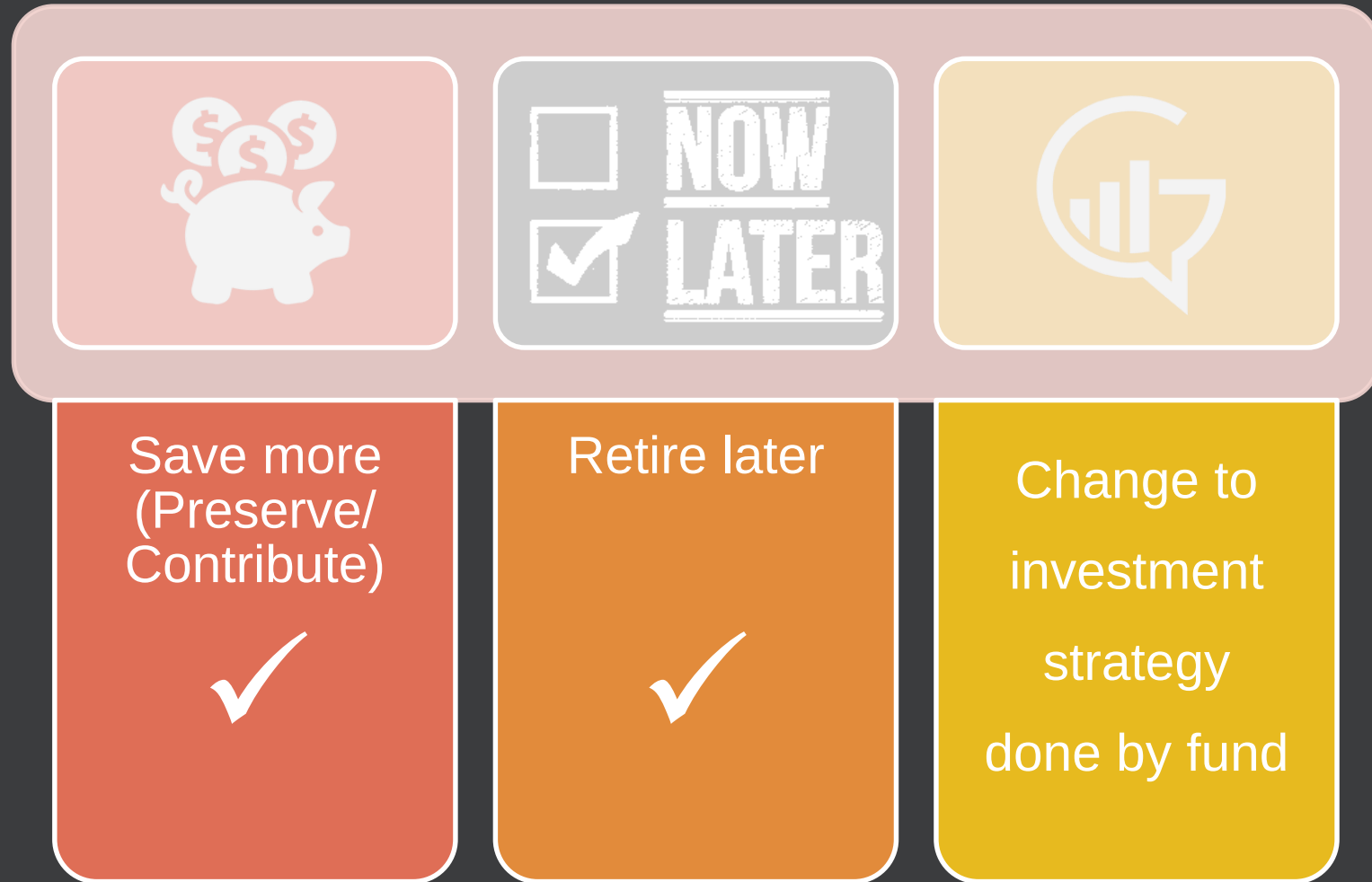
Invest appropriately to
target the income goal

- Appropriate mix of growth & de-risking strategies

Inform members of levers
under their control when
they make decision &
trade-offs

- Contribution levels
- Early retirement
- Preservation

Focus on
levers under
member
control



The New York Times

Opinion

There Are 3 Things We Have to Do to Get People Wearing Masks

Persuasion works better than compulsion.

By Angela Duckworth, Lyle Ungar and Ezekiel J. Emanuel
Dr. Duckworth, Dr. Ungar and Dr. Emanuel are professors at the University of Pennsylvania.

May 27, 2020



Brittany Newman/The New York Times

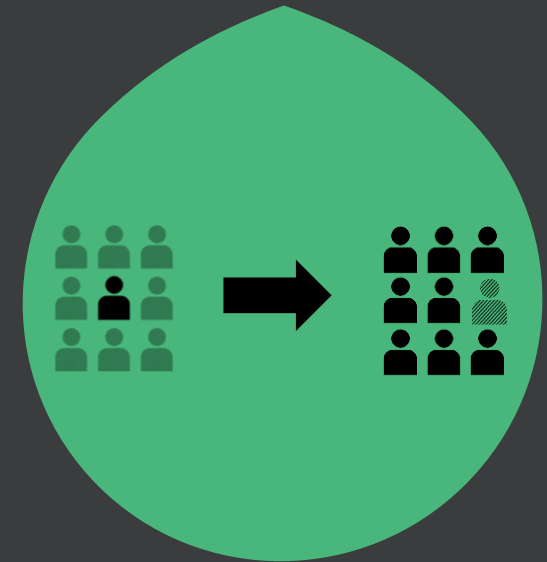
FROM EFFORTFUL
TO EASY



FROM UNCLEAR
TO UNDERSTOOD



FROM UNCONVENTIONAL
TO EXPECTED





FROM EFFORTFUL
TO EASY

EFFORTFULL

- If a fund is run as savings account it is easier to utilize it as one.
 - Difficult to target an income in retirement



EASY

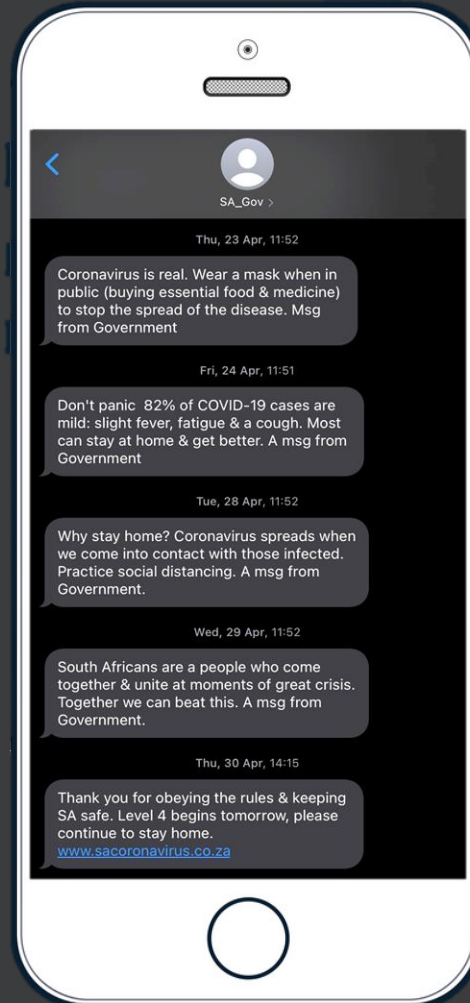
- Set personal retirement income goals as the default fund strategy
 - Easy for members to position the purpose of the fund.



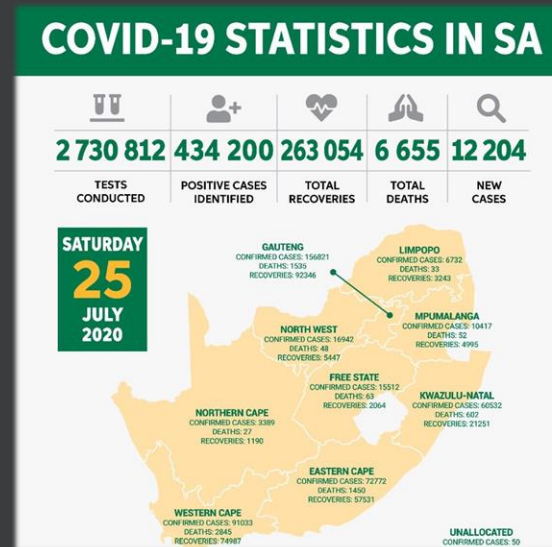


FROM UNCLEAR
TO UNDERSTOOD

Direct, personal communication



Regular status updates



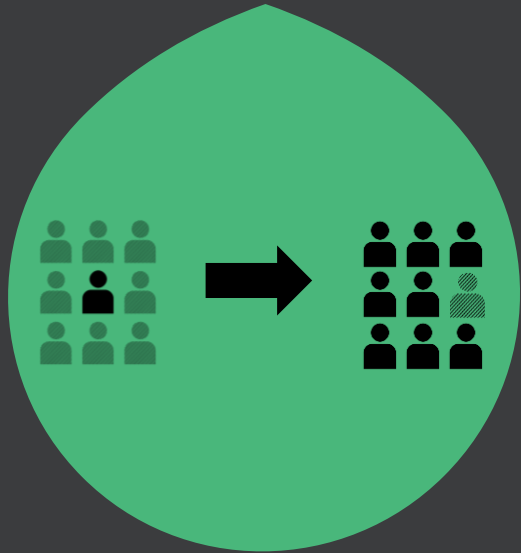
Communicate to members clearly, regularly and in personal terms on:

- Target retirement income goal
- Progress or lack thereof

So that they can understand the impact of different trade-offs

Clear explanation of logic...





FROM
UNCONVENTIONAL
TO EXPECTED

- Current DC fund system norms are:
 - To focus on a fund credit and related short term investment returns
 - For members to cash in retirement savings when they get the chance
- Can we change the system norms to:
 - To focus on retirement income benefit target?
 - To improve member engagement and informed responsible decision in respect of retirement savings?
 - Can it become the norm to use DC funds to provide for retirement income rather than withdrawal benefits?



even where there had been the most resistance...



A benefit projection is an important tool in monitoring whether a pension fund member is saving enough for retirement.

Projections assist in managing the expectations of members of a pension fund and influencing their behaviour by **providing members with information regarding realistic expectations of their future retirement benefits and the potential effect of retirement decisions.**



Funds are well
positioned to get members
to **focus on the**
right income metric
and to
make better decisions