



co|ourfield

**THE BENEFITS OF AN  
INCOME-FOCUSED  
APPROACH TO  
RETIREMENT SAVING**

**Retirement Matters Seminar**

27 July 2020

Trinisha Chanka  
Theo van Wyk



# Disclaimer

This presentation was created for the sole purpose of the **Retirement Matters Seminar 2020**. The information contained herein does not in any way constitute advice of any kind. The information contained in this presentation has been compiled with care to ensure its accuracy at the date of publication. However, Colourfield Liability Solutions makes no representation, express or implied, as to its completeness or accuracy. All research or analysis contained within this presentation has been procured by Colourfield Liability Solutions for its own use and may be acted on by Colourfield Liability Solutions in that connection. Any opinions expressed are subject to change without notice.

Colourfield is an Authorised Financial Services Provider, FSP 35113

co|ourfield

LIABILITY LEADING INVESTMENT

# The Crisis in Retirement Planning

**Members  
are retiring  
with  
grossly  
inadequate  
incomes**



# The Crisis in Retirement Planning

If a member earned R10 000 pm before retirement

- ▶ **Average pension = R3 220<sup>\*\*</sup> pm**  
(average RR of 46%\*)
- ▶ **Only 6 out of every 100 members have a pension > R5 250<sup>2</sup> pm**  
(RR > 75%\*)

\* AF Member Watch 2020 and based on pensionable salary

\*\* Varies amongst members, assumed 70%



# The Crisis in Retirement Planning



---

Contributions are lower than needed  
(average 14% vs required c. 17%)

---

Preservation is MAJOR issue (only 8% of  
members preserve)

---

Members are faced with complex choices  
throughout their retirement journey which  
they are ill-equipped to handle



# Ill-equipped for the complexity involved

How much should I save?

Which investment portfolio do I choose?

Retired! Finally I can go on that overseas holiday! And pay off the house!

How much risk cover do I need? Cost?

I've resigned - is the hassle to preserve worth it?



# Exacerbated by COVID19

---

1. Market volatility and negative returns erodes capital and causes panic (emotional switches to cash)
2. Contribution suspensions reduce savings
3. Retrenchments expose members to non-preservation
4. Loss of income forces members to consider accessing retirement savings

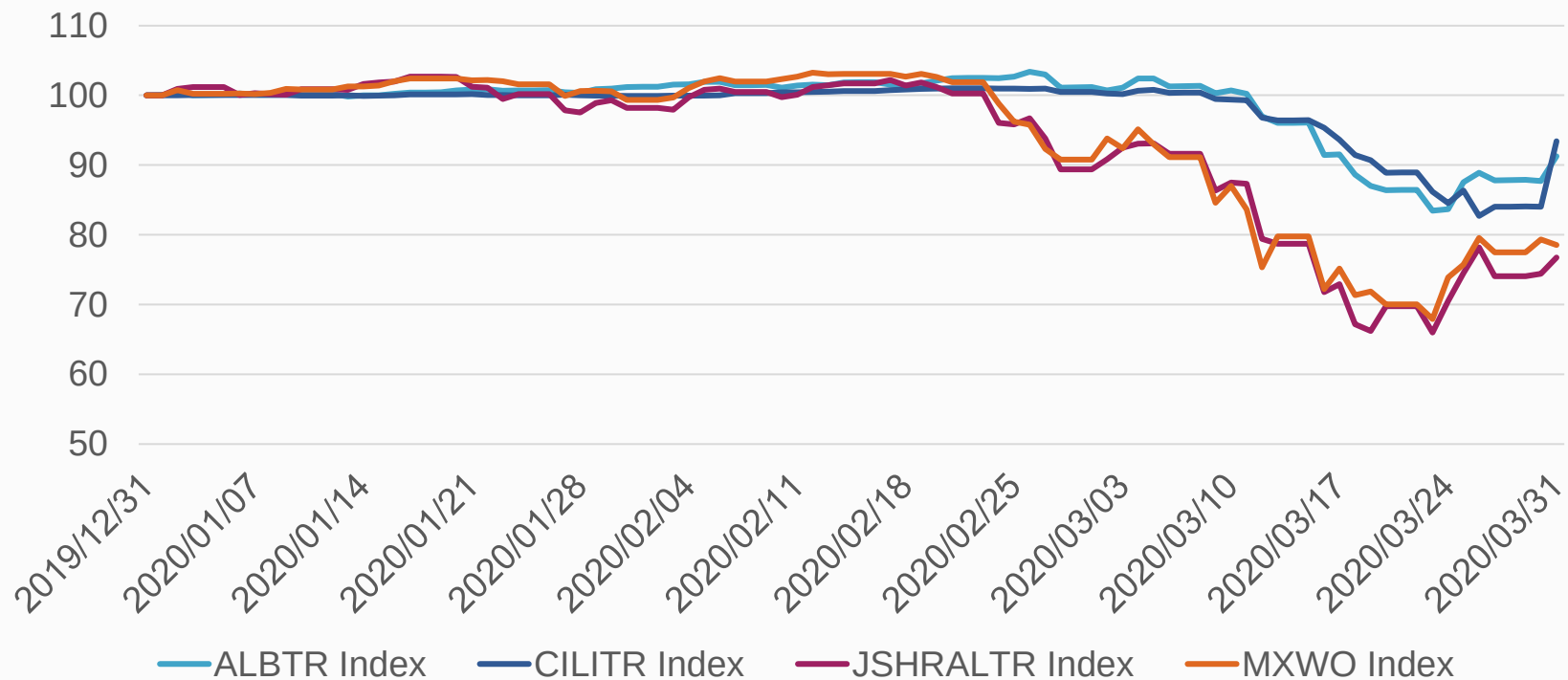


An approach that focuses  
on income can help  
members and Trustees to  
navigate these waters

1. Focusing on income can alleviate panic and reduce impulsive investment switches

# Q1 2020...CoVid-19

Q1 2020



|            | ALBTR  | CILITR | JSHRALTR | MXWO    |
|------------|--------|--------|----------|---------|
| Q1 returns | -8.72% | -6.61% | -23.28%  | -21.44% |

# A member's perspective



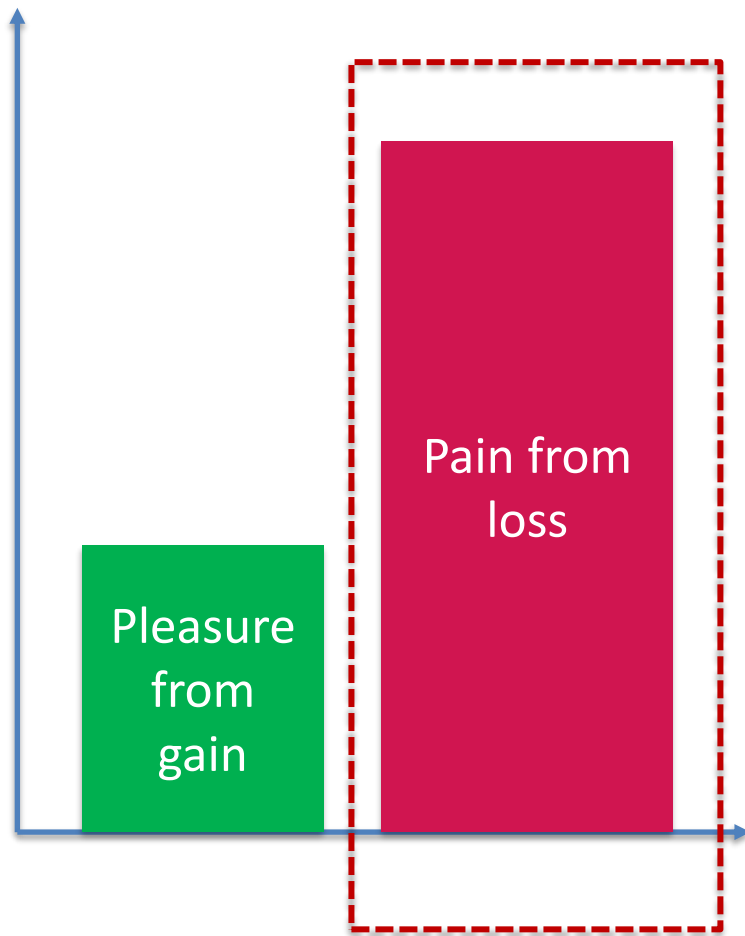
25% of Retirement Funds had  
members that queried or  
complained about  
investment values or  
performance

# How has this affected my retirement savings?

| Member aged | Fund Balance 31 Dec 2019 | Contributions over quarter | Fund Balance 31 March 2020 | Investment returns | Return Q1 2020 |
|-------------|--------------------------|----------------------------|----------------------------|--------------------|----------------|
| 25          | R29 504                  | R8 048                     | R31 291                    | -R6 261            | -18.25%        |
| 35          | R35 906                  | R6 815                     | R35 514                    | -R7 207            |                |
| 45          | R95 238                  | R10 425                    | R87 279                    | -R18 384           |                |
| 55          | R589 135                 | R44 665                    | R523 666                   | -R110 134          | -18.81%        |
| 60          | R4 871 380               | R45 338                    | R4 467 063                 | -R449 655          | -17.21%        |
| 62          | R1 272 010               | R33 258                    | R1 150 568                 | -R154 700          | -14.22%        |
| 64          | R773 825                 | R11 636                    | R720 740                   | -R64 721           | -12.00%        |

\*Sample Fund

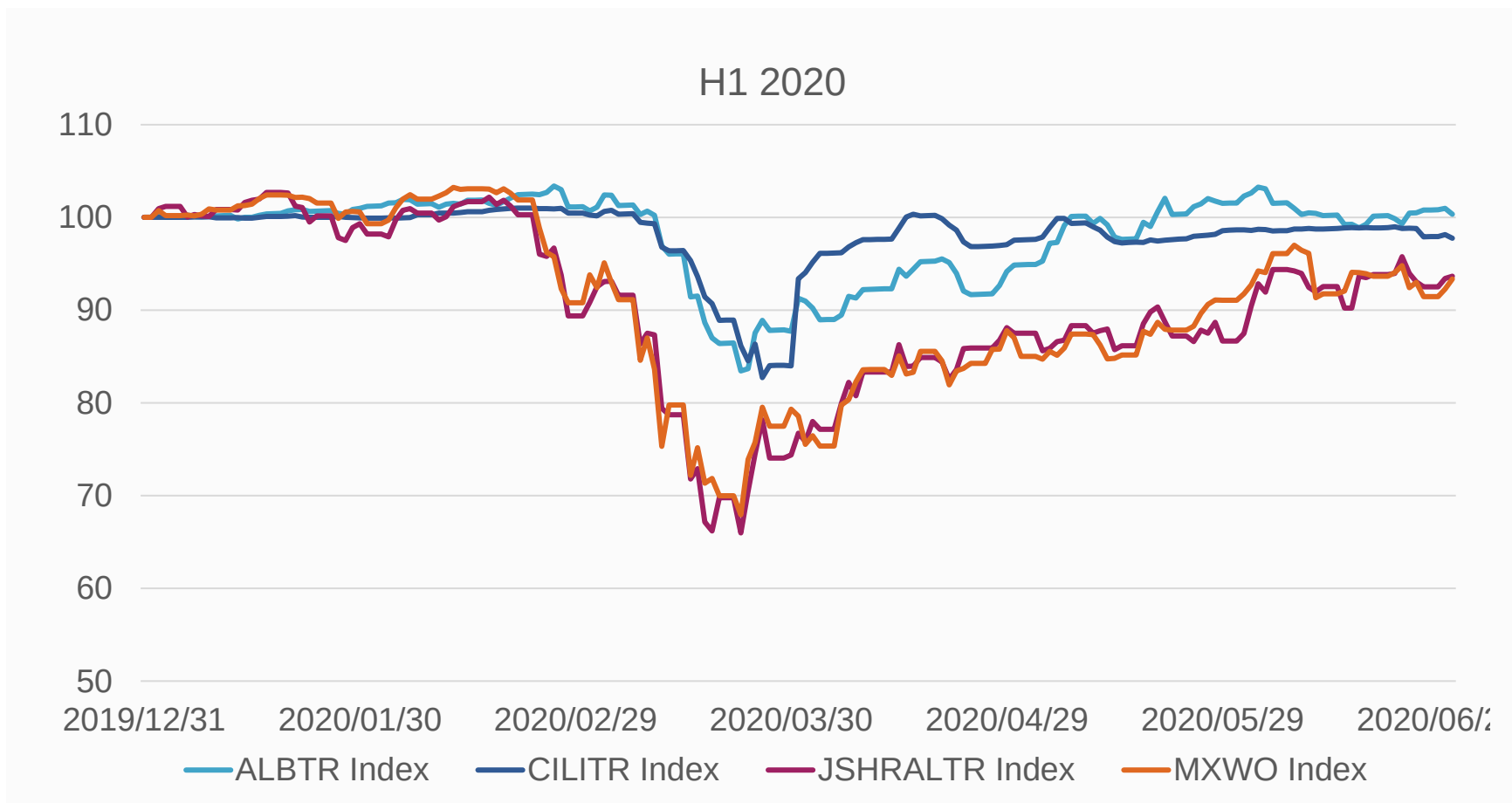




5% of members  
were reported to  
have implemented  
switches to cash....

the implications of  
cashing out can be  
significant!

# Switching to cash means members may miss out on the recovery



|            | ALBTR | CILITR | JSHRALTR | MXWO   |
|------------|-------|--------|----------|--------|
| H1 returns | 0.36% | -2.24% | -6.33%   | -6.64% |

# Missing the recovery – Impact on Income

|                    | Expected Retirement Income pm (30 June 2020) |                        |              |
|--------------------|----------------------------------------------|------------------------|--------------|
| Sample Member aged | No change to Investments                     | Switch to Cash over Q2 | Differential |
| 25                 | R35 937                                      | R35 812                | -0.3%        |
| 60                 | R61 389                                      | R56 804                | -8.1%        |
| 62                 | R14 923                                      | R14 075                | -6.0%        |

# Switching to cash means members protect capital but NOT income

| Sample member<br>aged 64         | Capital Protection<br>(invested in cash) |                       |                                    | Income Protection<br>(invested in income-matching) |                       |                                    |
|----------------------------------|------------------------------------------|-----------------------|------------------------------------|----------------------------------------------------|-----------------------|------------------------------------|
|                                  | Fund<br>Balance                          | Expected<br>Income pm | % Change<br>Income<br>(vs current) | Fund<br>Balance                                    | Expected<br>Income pm | % Change<br>Income<br>(vs current) |
| Current yields<br>(30 June 2020) | R766 454                                 | R5 293                |                                    | R766 454                                           | R5 293                |                                    |

# Switching to cash means members protect capital but NOT income

| Sample member<br>aged 64         | Capital Protection<br>(invested in cash) |                       |                                    | Income Protection<br>(invested in income-matching) |                       |                                    |
|----------------------------------|------------------------------------------|-----------------------|------------------------------------|----------------------------------------------------|-----------------------|------------------------------------|
|                                  | Fund<br>Balance                          | Expected<br>Income pm | % Change<br>Income<br>(vs current) | Fund<br>Balance                                    | Expected<br>Income pm | % Change<br>Income<br>(vs current) |
| Current yields<br>(30 June 2020) | R766 454                                 | R5 293                |                                    | R766 454                                           | R5 293                |                                    |
| Yields fall by 1%                | R766 454                                 | R4 818                | -9.0%                              | R839 267                                           | R5 271                | -0.4%                              |

# Switching to cash means members protect capital but NOT income

| Sample member<br>aged 64         | Capital Protection<br>(invested in cash) |                       |                                    | Income Protection<br>(invested in income-matching) |                       |                                    |
|----------------------------------|------------------------------------------|-----------------------|------------------------------------|----------------------------------------------------|-----------------------|------------------------------------|
|                                  | Fund<br>Balance                          | Expected<br>Income pm | % Change<br>Income<br>(vs current) | Fund<br>Balance                                    | Expected<br>Income pm | % Change<br>Income<br>(vs current) |
| Current yields<br>(30 June 2020) | R766 454                                 | R5 293                |                                    | R766 454                                           | R5 293                |                                    |
| Yields fall by 1%                | R766 454                                 | R4 818                | -9.0%                              | R839 267                                           | R5 271                | -0.4%                              |
| Yields rise by 1%                | R766 454                                 | R5 782                | 9.2%                               | R705 138                                           | R5 324                | 0.6%                               |

Protecting capital may not  
protect income....

Income protection is  
needed if income is the  
goal

How would the  
perspective change if  
members were focused  
on income?

# How has my expected income changed during this crisis (Q1)?

| Sample Member aged | Expected Retirement Income pm (31 Dec 2019) | Expected Retirement Income pm (31 Mar 2020) | % Change in Expected Retirement Income |
|--------------------|---------------------------------------------|---------------------------------------------|----------------------------------------|
| 25                 | R32 300                                     | R36 072                                     | +12%                                   |
| 35                 | R14 453                                     | R15 824                                     | +10%                                   |
| 45                 | R13 645                                     | R14 525                                     | +6%                                    |
| 55                 | R23 804                                     | R25 209                                     | +6%                                    |
| 60                 | R57 217                                     | R58 222                                     | +2%                                    |
| 62                 | R14 371                                     | R14 457                                     | +0.6%                                  |
| 64                 | R5 228                                      | R5 249                                      | +0.4%                                  |

\*Sample Fund

A focus on the right  
income metric reduces  
panic and the temptation  
to cash out

2. Contribution  
suspensions can offer  
much-needed short-  
term relief

# Understanding Impact of short-term relief

## Expected Retirement Income pm

| Member aged | Current<br>(30 June 2020) | Contributions<br>Suspended for 12m | % Change |
|-------------|---------------------------|------------------------------------|----------|
| 25          | R39 103                   | R38 382                            | -1.8%    |
| 35          | R55 245                   | R54 121                            | -2.0%    |
| 45          | R43 809                   | R42 810                            | -2.3%    |
| 55          | R9 607                    | R9 287                             | -3.3%    |

\*assumes employee contributions (1/3) are suspended

Could avoid devastating  
alternatives (such as  
withdrawal)...

16% of members enquired  
about accessing  
retirement funds

3. & 4. Accessing savings  
(non-preservation)  
can have dire  
consequences  
especially for  
members close to  
retirement

# Understanding the Impact of Non-Preservation and/or Accessing Savings

## Expected Retirement Income pm

| Member aged | Current (30 June 2020) | Income lost from non-preservation | % Income lost |
|-------------|------------------------|-----------------------------------|---------------|
| 25          | R75 306                | R4 712                            | 6%            |
| 35          | R77 145                | R25 536                           | 33%           |
| 45          | R68 076                | R38 348                           | 56%           |
| 57          | R64 267                | R54 390                           | 85%           |

\*assumes members participate in the Fund from age 25. For completeness, these are not the same members referenced above

# Timing is opportune

---

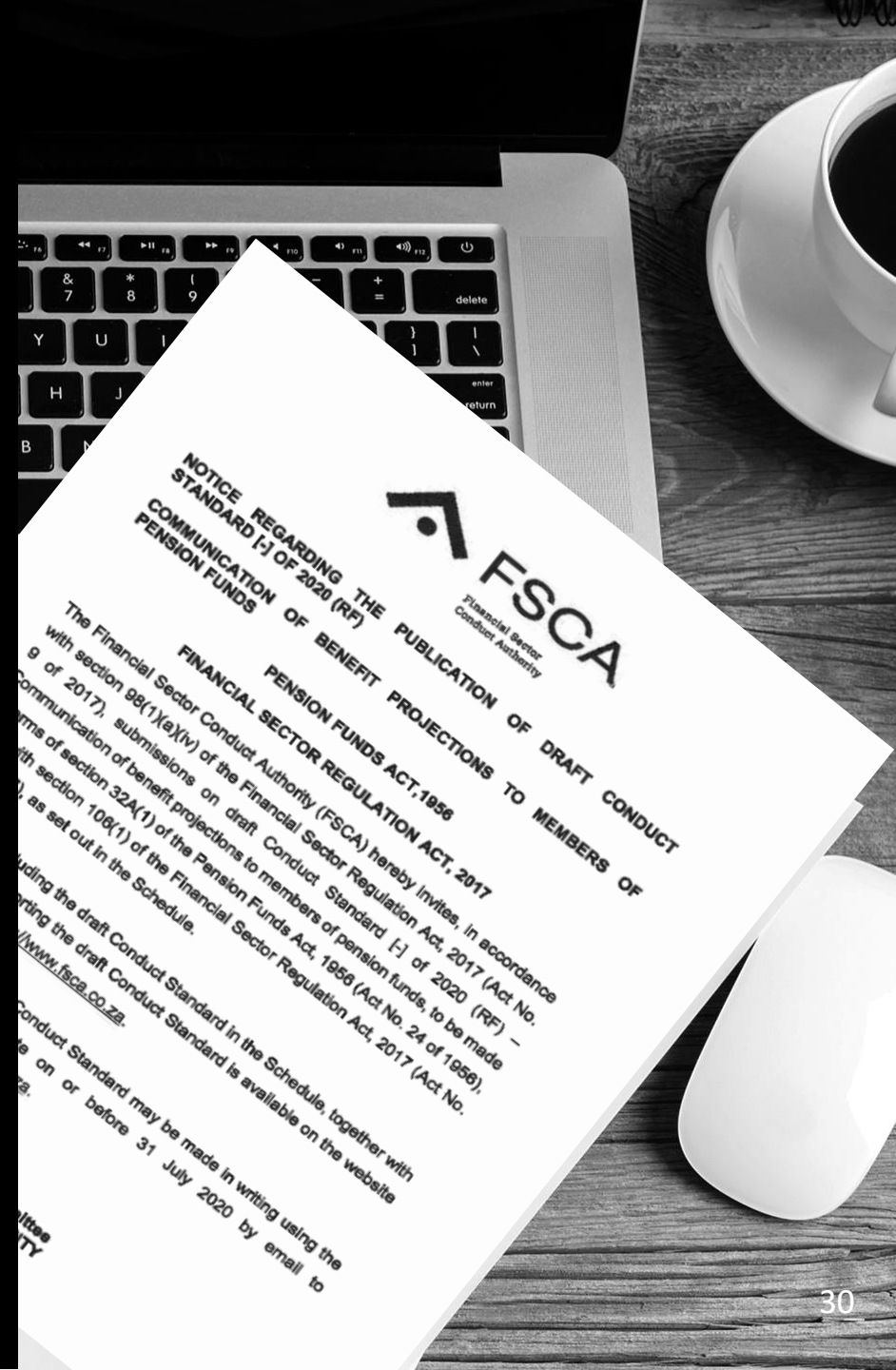
Draft Conduct released on Benefit Projections

---

“assist in managing expectations...influence behavior... educate members regarding realistic expectation of future retirement benefits and potential effect of retirement decisions taken.”

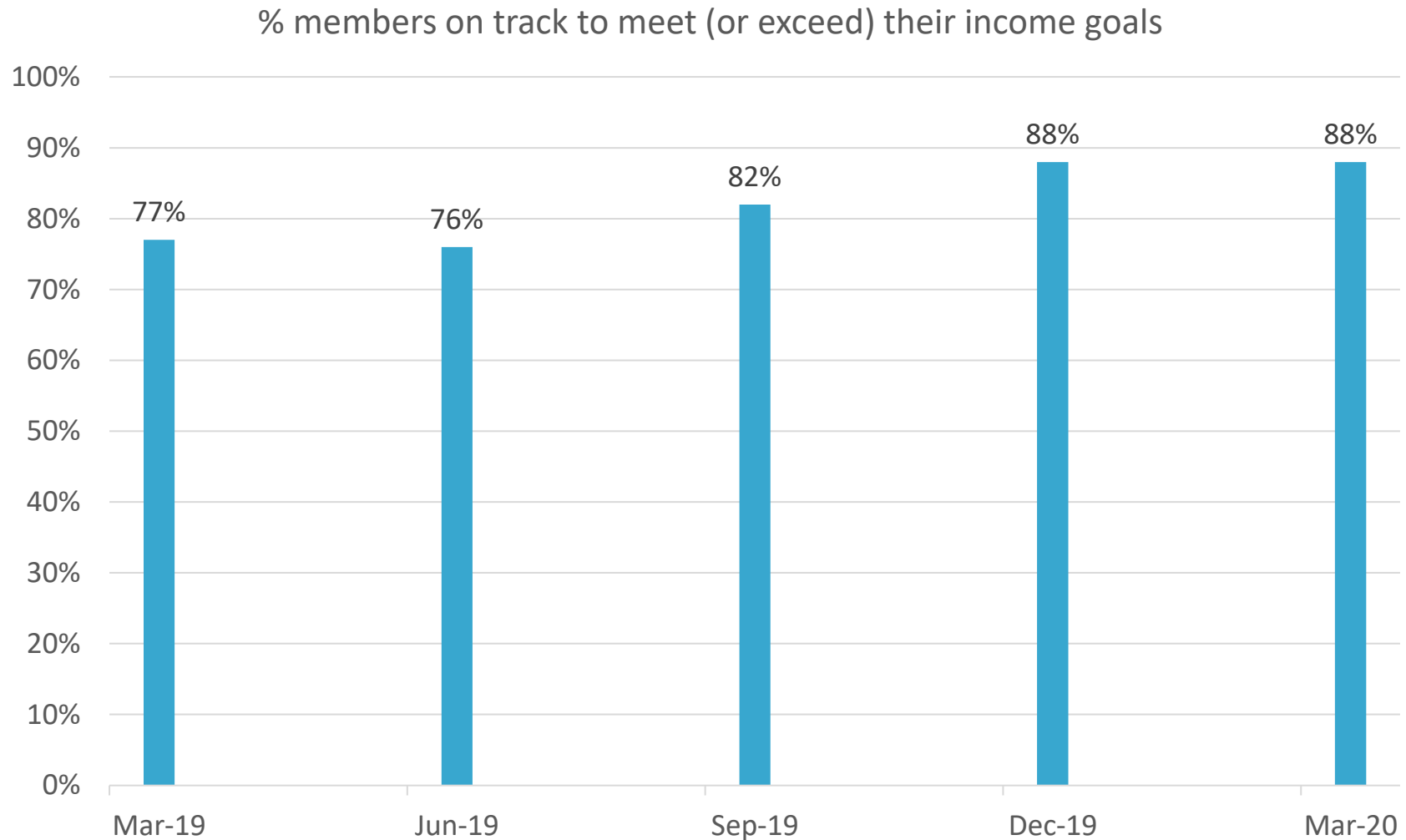
---

Great stride in the right direction



Actual experience has  
resulted in improved  
outcomes

# Improving member outcomes (SA)



Sample Fund, most recent experience

# Improving member outcomes (Australia)

- Introduced estimate of retirement income, in addition to current balances
- The **impact of this new message** on members' contributions, engagement, and investment choices **was remarkable.**
- The retirement income estimate:
  - ✓ **motivated additional savings:** 33% increased contributions
  - ✓ **raised engagement:** 35% interacted directly with the Fund, of those who did interact, the number of interactions was 68% higher

Source: ARC Centre of Excellence in Population Ageing Research, The impact of projections on superannuation contributions, investment choices and engagement.



colourfield

thank you