

Botswana Pensions Society

*Individual member investment choices should
be mandatory for every pension fund?*

February 2020

The retirement goal

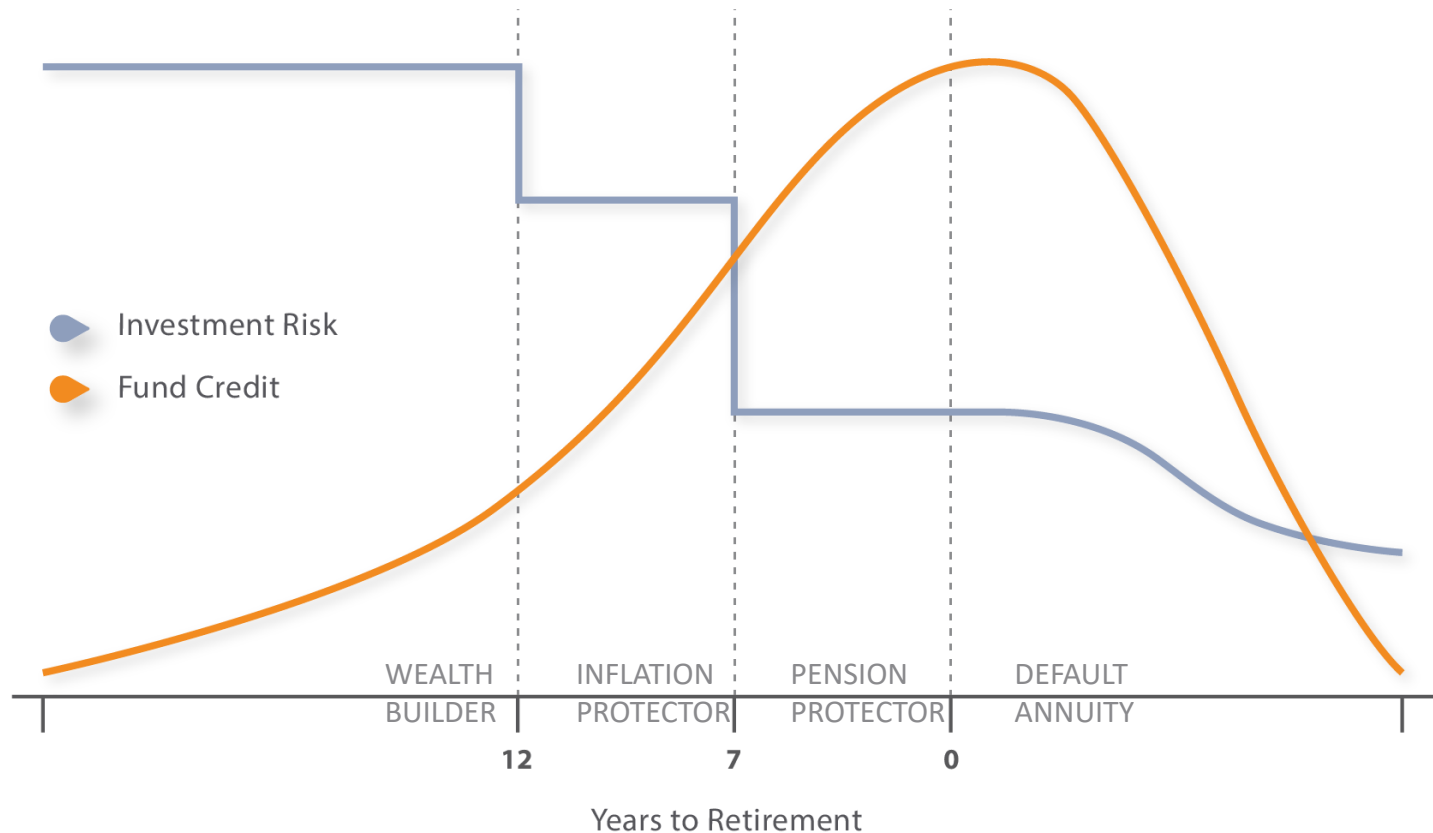


*You should have a **stable income** to **maintain** your **standard of living** throughout your retirement*

Help members think “longevity”

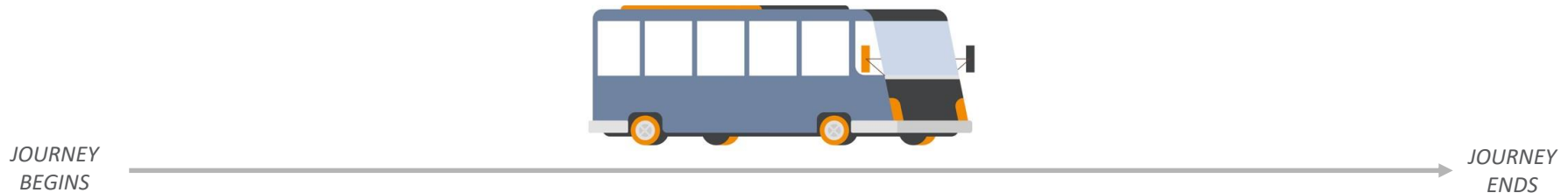
“Deciding what not to do is as important as deciding what to do” – Steve Jobs

Think “Cradle to Grave” solution.

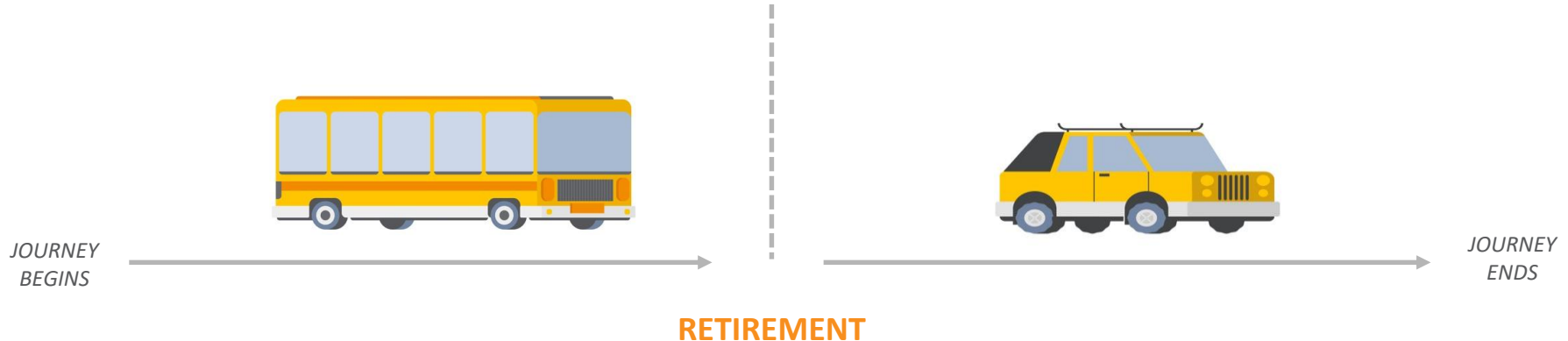


The ideal cradle to grave retirement journey

DEFINED BENEFIT FUNDS



DEFINED CONTRIBUTIONS FUNDS



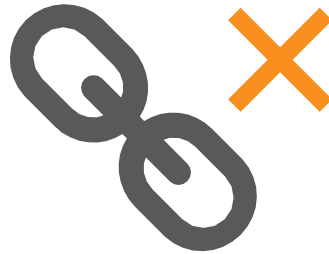
What does the journey underlying this retirement goal look like? **DB** funds have a seamless cradle to grave journey. In **DC** funds, every member is running their own **DB** fund, but the cradle to grave journey has a bus stop at retirement age.

Factors impacting cradle to grave journey

Many factors, likely three most important ones:



*Too much **noise**
during journey*

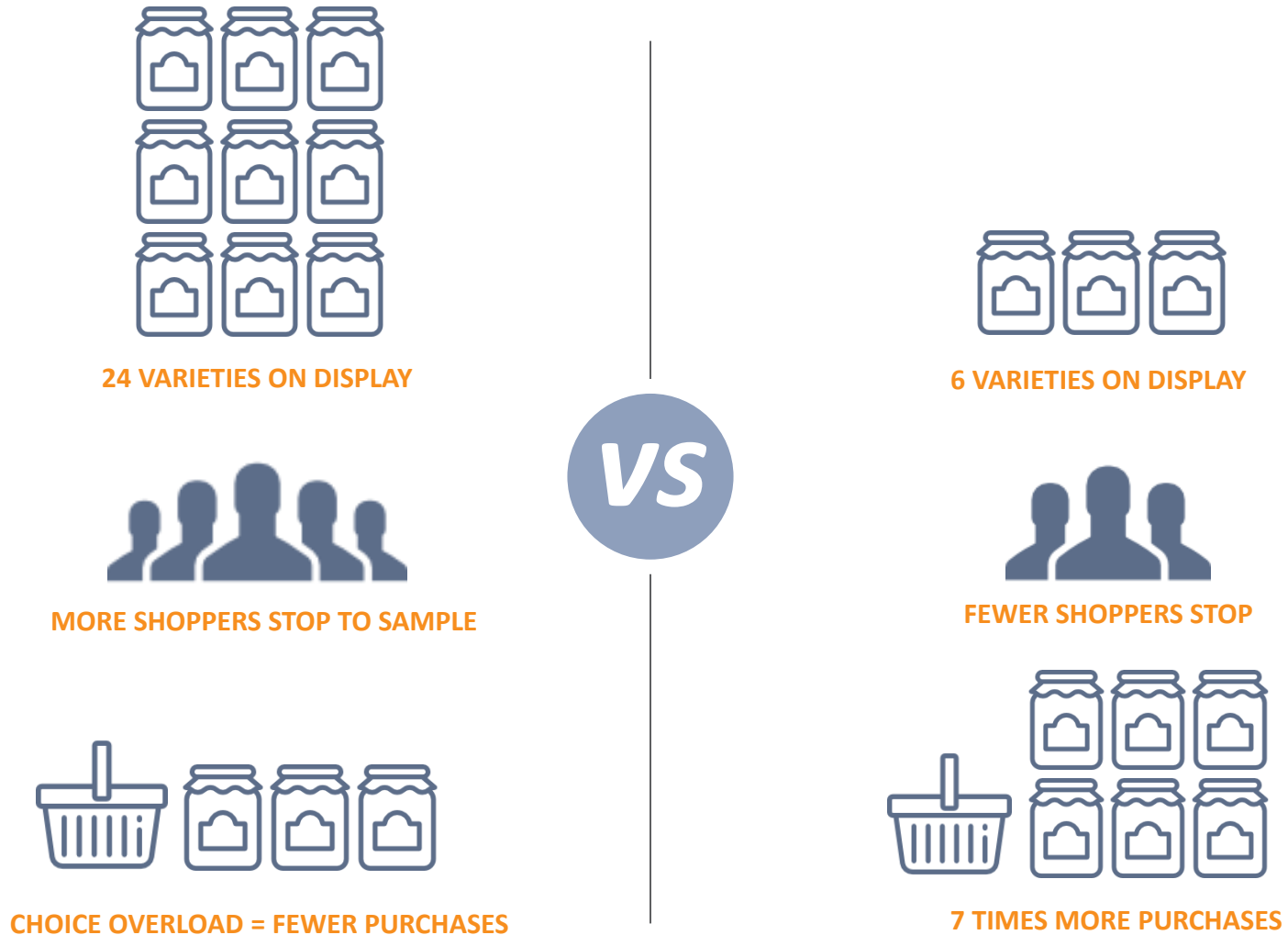


***Disconnect** between
parts of journey*



***Expensive products**
shorten journey*

1. Is too much choice a good thing?



Source: Professor Iyengar, Columbia University, 1995

2. No seamless transition in journey

DEFINED BENEFIT FUNDS



JOURNEY
BEGINS

JOURNEY
ENDS

DEFINED CONTRIBUTIONS FUNDS



JOURNEY
BEGINS

JOURNEY
ENDS

RETIREMENT

Ideal vs reality

The *ideal* seamless glide path towards guaranteed income...



...versus the *typical* glide path due to need to maintain standard of living.

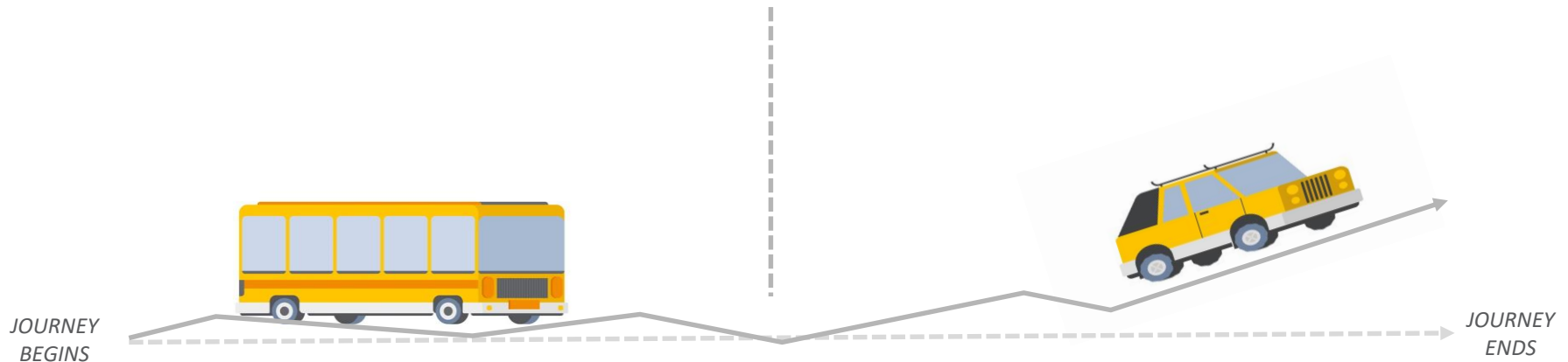


The end results of these factors?

DEFINED BENEFIT FUNDS



DEFINED CONTRIBUTIONS FUNDS



RETIREMENT

How should trustees assist in the cradle to grave journey?

- ▶ Richard Thaler and Cass Sunstein said that decision makers do not make choices in a vacuum, but in an environment where many features can influence their decisions.
- ▶ Create an environment that can be used to help nudge people to make better choices without forcing certain outcomes upon anyone:

Think long term when constructing investment strategies

- ▶ Are you thinking about protecting a pension income in the long-term or protecting pension capital in the short-term? Take care not to be myopic.

Reduce the overchoice in default annuity options

- ▶ Deciding what not to do is just as important as deciding what to do.

Simplify the way complex concepts and information are communicated

- ▶ Help decision makers make informed decisions easier.

No Jargon

Does lots of information lead to better decisions?

- ▶ Simplify the way complex concepts and information is communicated and help decision makers make informed decisions easier



2 fingers of KitKat



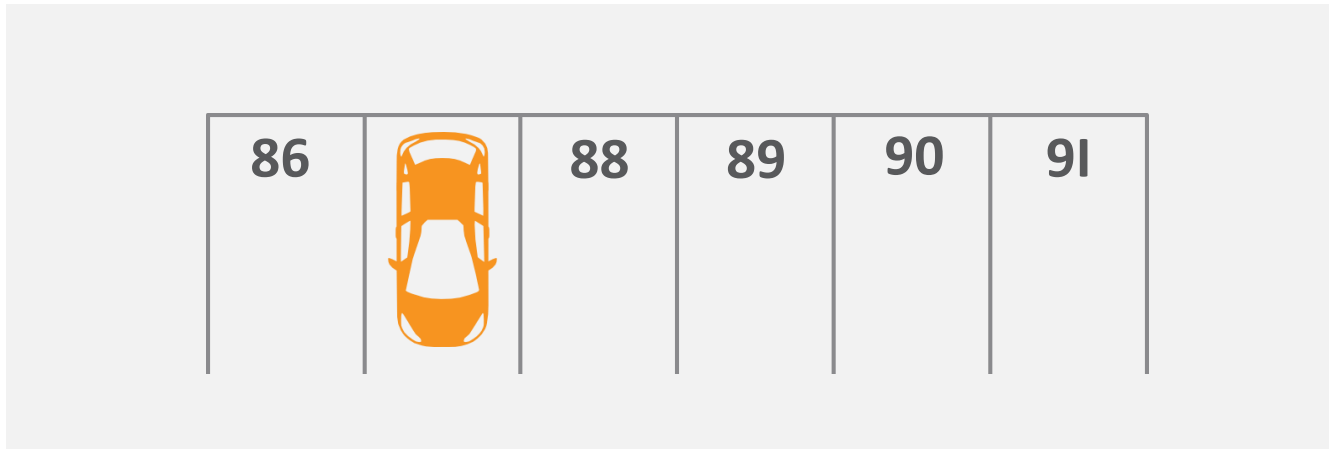
439kj	
5 % Adult RDA	
Nutrition Facts	
Serving Size: 1 serving (22.5 g)	
Kilojoules	439 kj
Protein	1.1 g
Carbohydrate	14 g
Fat	6.7 g
Fibre	0.5 g
Sodium	20 mg



20 minutes of sit ups?

People can understand

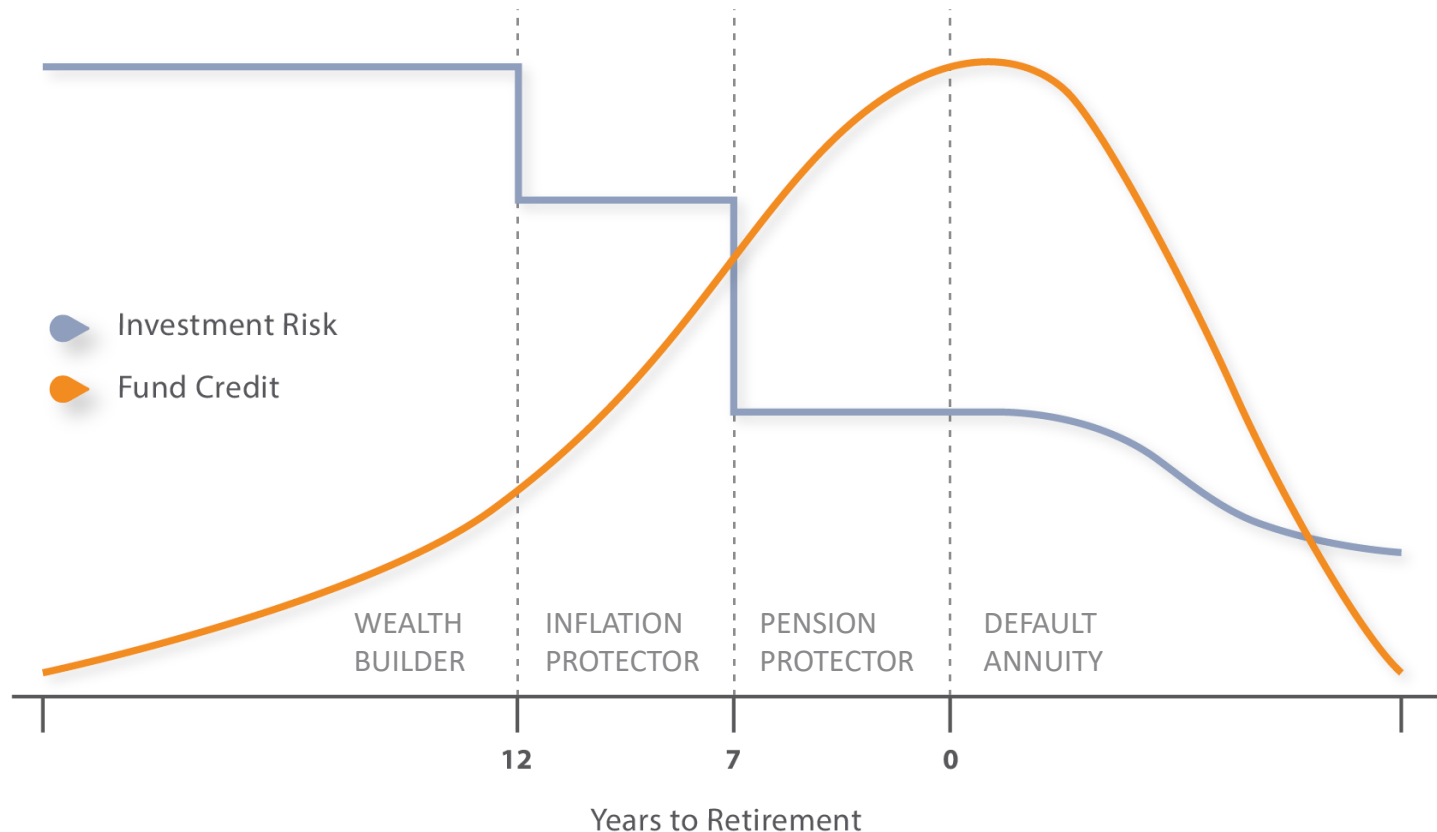
This puzzle was given to first graders in Hong Kong as an entrance exam. The key is to not get caught up in complicated calculations. And to not think so hard! The kids cracked it in just a few seconds. **Why?**



Question: *in what parking spot number is the car parked?*

Think long term when constructing strategy

Pay attention to the future outcome of your investment strategy and how that sits with your preferred annuity strategy to ensure a seamless transition for members from cradle to grave.



Income protection vs. capital protection

Are you thinking about protecting a pension income in the long-term or protecting pension capital in the short-term?



R1m
capital

X

12%
interest

=



R10 000

monthly income



R1m
capital

X

6%
interest

=



R5 000

monthly income



R2m
capital

X

6%
interest

=

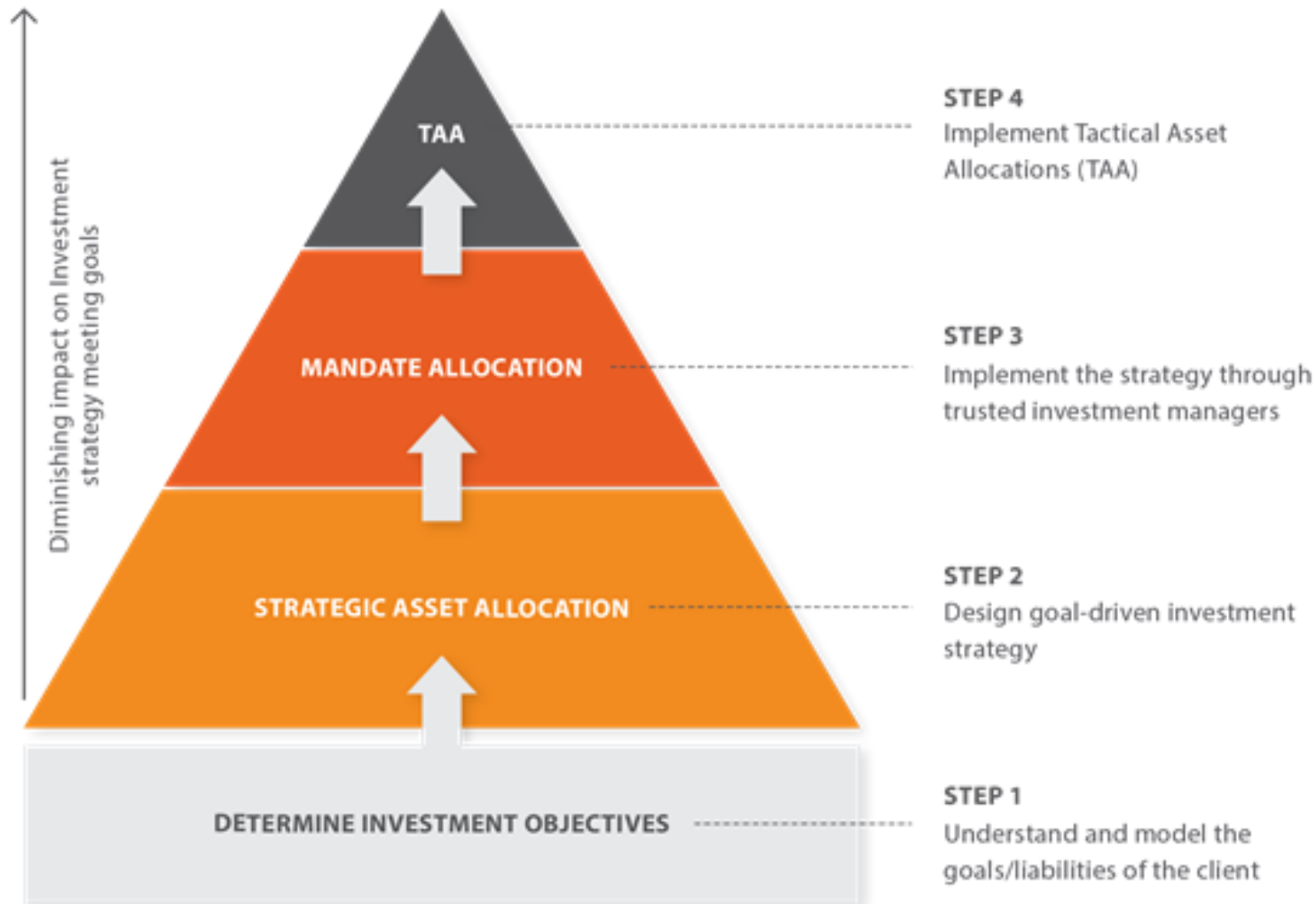


R10 000

monthly income



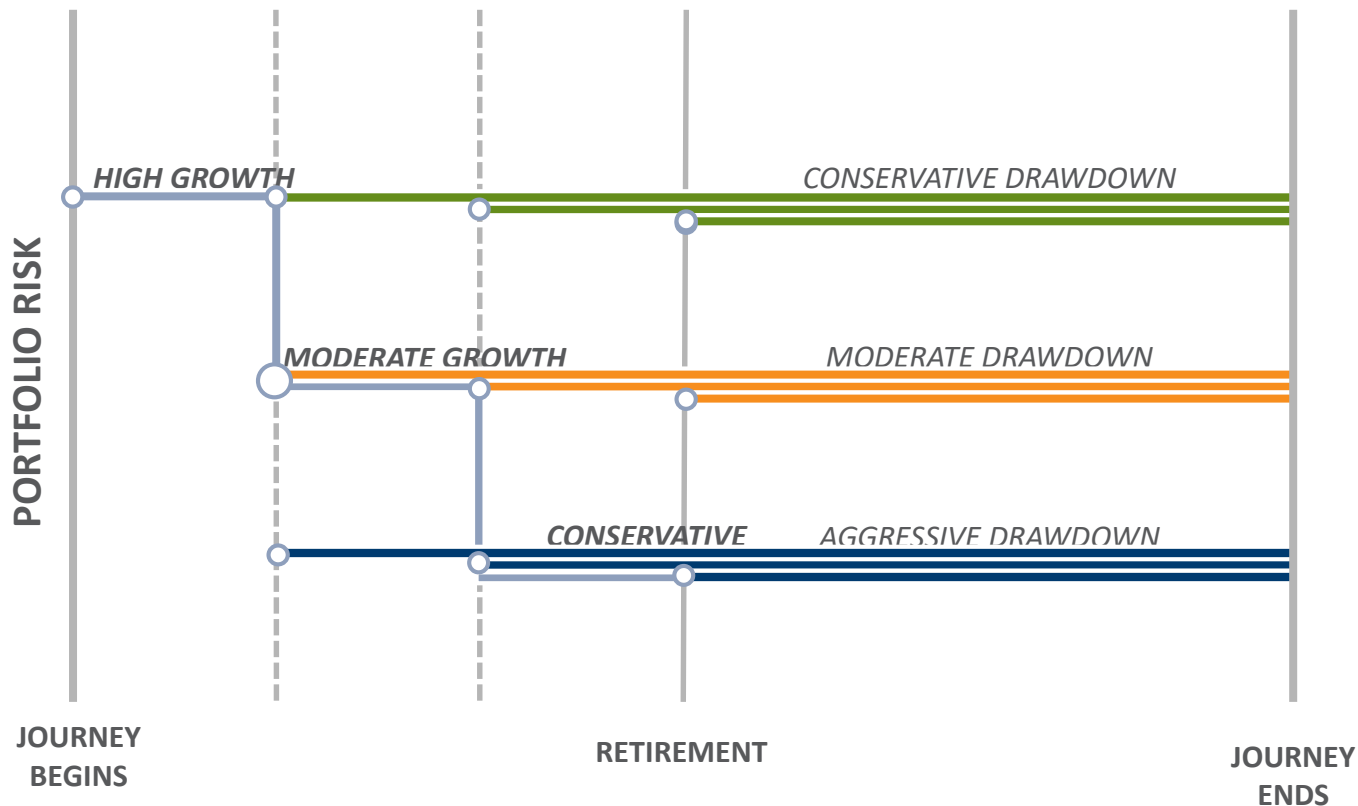
Investment strategy is driven by asset allocation



Cradle to grave journey

In the context of the cradle to grave journey, the diagram below illustrates the concept of seamless transition between the various pre-retirement and post-retirement portfolios.

Note how the level of portfolio risk reduces over the retirement journey whilst linking the pre- and post-retirement portfolios.



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Questions?

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