

BOTSWANA PENSIONS SOCIETY 2020 ANNUAL CONFERENCE



**Can Boards of Trustees influence the
build-up of member retirement incomes?**

Presented by : Kago Petso



Coverage

- ▶ What are the current outcomes at retirement
- ▶ Retirement savings vehicles – Back to basics!
- ▶ Trustees' duties & responsibilities
- ▶ What is the ideal objective at retirement?
- ▶ Lets compare with actual Life Outcomes
- ▶ Trustees have the 'Power of Influence'
- ▶ What can be done differently?
- ▶ Concluding Remarks



The landscape!



Current outcomes at retirement



Members' retirement income expectations are falling short!

Current outcomes at retirement

Before



After



Inflationary **pressure**

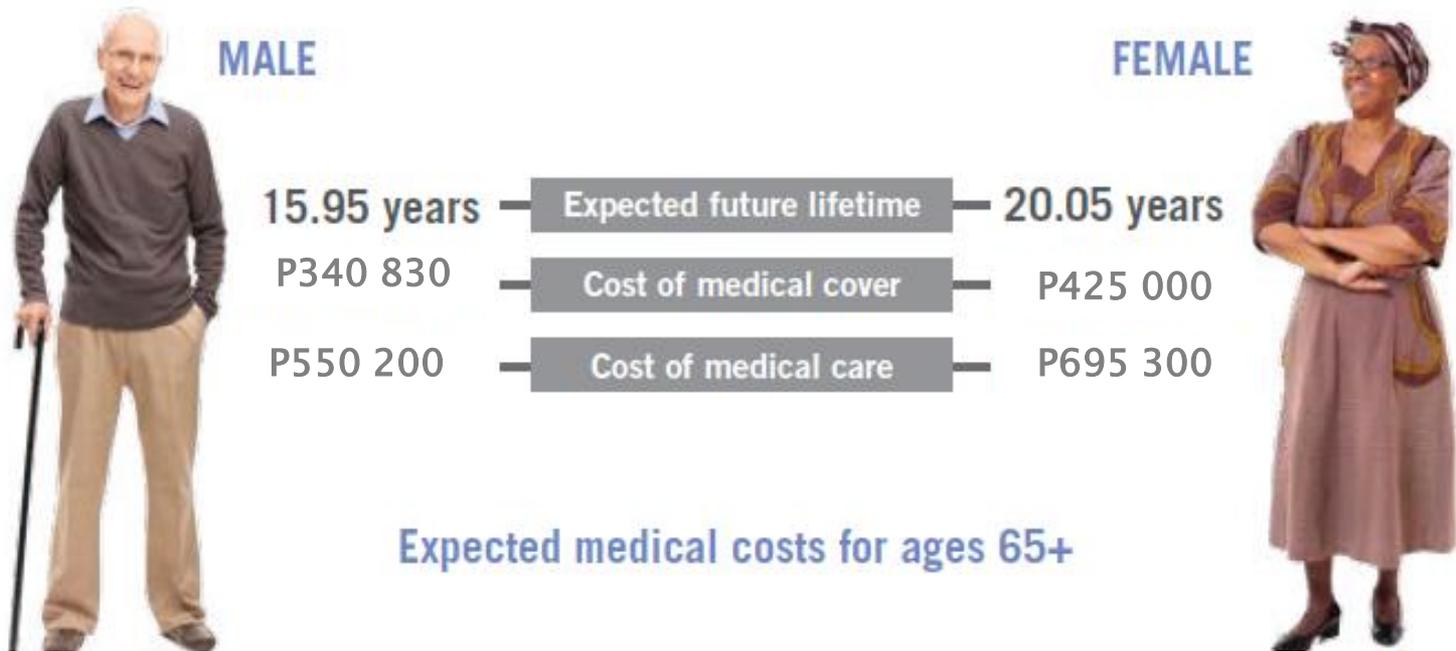


...and unsettled **debt**



Current outcomes at retirement

- ▶ Longevity is putting pressure on IRR
- ▶ Increasing health issues due to aging
 - ...Medical costs are a significant and growing challenge!





Current outcomes at retirement

Other social obligations:

- ▶ Extended support to grand children
- ▶ Children 'Nesting-out' late
- ▶ Other life events



Inputs... >>

Expectations of retirement income are not adding up!



The reality... »»

Expectations of retirement income are not adding up!



If we continue at this trajectory... >>

Retirement may have to be retired!

Current outcomes at retirement

- ▶ The traditional family support model – will it hold?
- ▶ What alternatives are being resorted to...



- High prevalence of commutation retirement benefits
- Its risky to use retirement capital to start a business!



Retirement savings vehicles – Back to basics!





Retirement savings vehicles – Back to basics!

- ▶ **Severance Schemes;** the gratuity benefits to Minimum prescribed benefit in terms of the Employment Act
- ▶ **Gratuity Schemes;** the gratuity benefits to the employee in terms of the expressed as a function of annual Salary
- ▶ **Retirement Annuities;** the Income Tax Act allows a member to contribute to a retirement annuity Fund and claim the contributions as a deduction from your income tax



Retirement savings vehicles – Back to basics!

- ▶ **Pension Fund;** max 1/3 of pension benefit may be commuted for lump. At least 2/3 must be paid as an annuity
- ▶ **Provident Fund;** whole benefit payable as lump sum



Governance & Management structures





Governance & Management structures

BOARD OF TRUSTEES

Minimum of 5 to maximum of 11 Trustees

Employer Trustee 50%
representation

Member Trustee 50%
representation

Independent Trustee

Risk & Compliance Officer



Trustees' duties & responsibilities



- ▶ Fiduciary Responsibility: Act Impartially
- ▶ Exercise Discretionary powers with INTEGRITY
- ▶ Trustees owe duty to Fund, Members & the Employer



Trustees' Power of Influence

- ▶ Trustees hold the Power of Influence
- ▶ You are 'The Conductor' of the Orchestra





Trustees' Power of Influence



- ▶ Members' retirement outcomes are a direct reflection of your governance & management decisions...
- ▶ or perhaps lack thereof!



Governance & Management structures

Where is the 'Epi-centre' of Influence?

Consider the composition of a typical Board of Trustees for an Employer Sponsored Retirement Scheme

Employer Representatives	Employee Representatives
CEO/MD	General Staff
CIO/FD	Union Reps
HRD	Middle Management
COO	Pensioner/Deferred Member representatives
HOD Legal, Risk Compliance	Other stakeholder representatives

Trustees' Power of Influence



- ▶ The possibility for change lies with you

What is the ideal objective at retirement?



AIM:
LONG TERM
FINANCIAL SECURITY

Pension of 60 – 75%
of final salary in retirement



What is the ideal objective at retirement?

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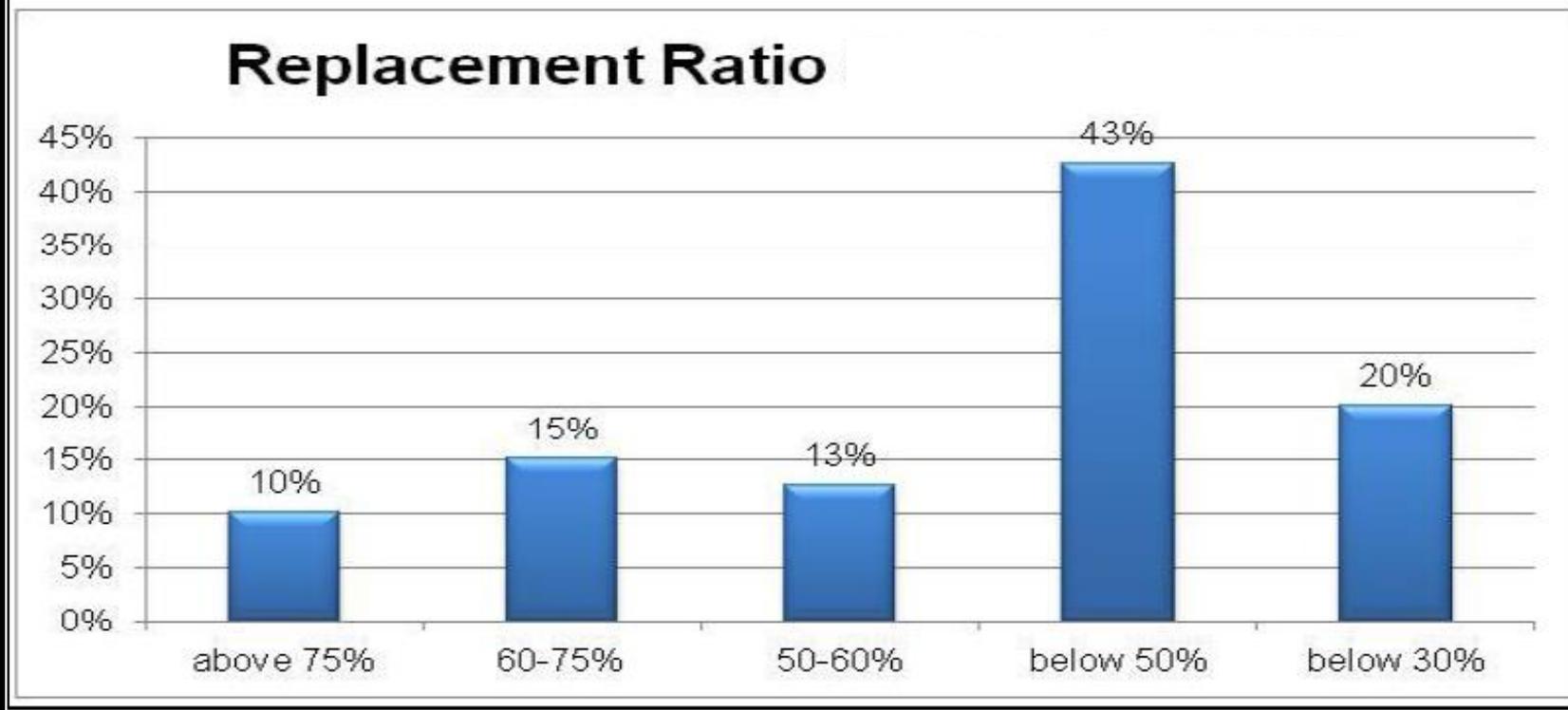
Factors that affect the pension at retirement:

- Contributions you make to the fund
- Costs of risk benefits and administration
- Salary progression (may need to make additional voluntary contributions to make up for salary increases)
- Investment returns
- Portfolio in which you are invested
- Not preserving your benefit on withdrawal
- The age at which you retire
- Cost of the pension at retirement



Objective at retirement vs Reality...

This graph illustrates the Replacement Ratio for all individuals who bought an annuity.



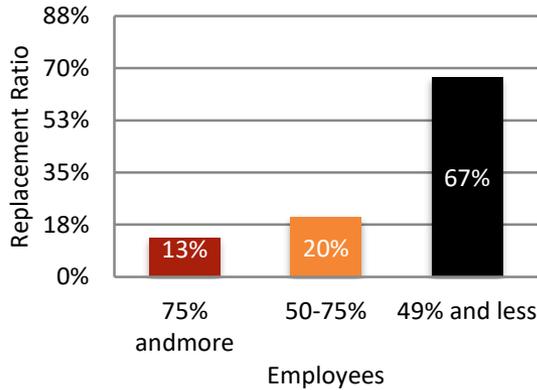
Source: AFFS Financial Planning Factsheet



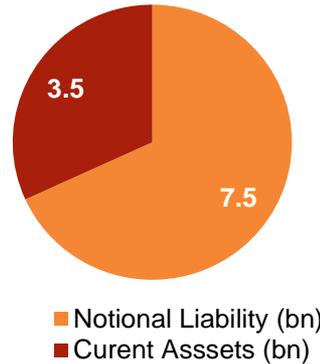
Objective at retirement vs Reality...

DC Funds at a glance

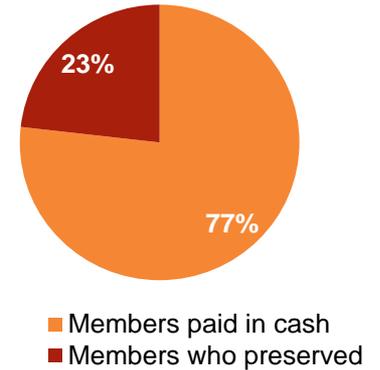
Your employees' retirement reality



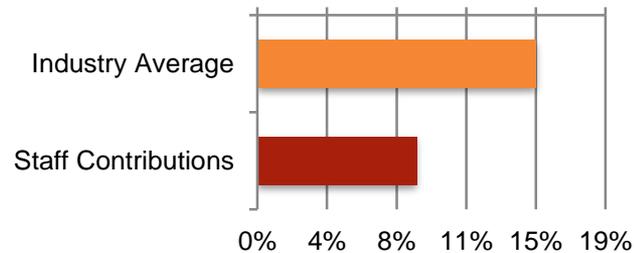
Total Assets Under Management



Preservation Ratio



Staff contributions vs Industry average





Coverage - recap

- ▶ ~~What are the current outcomes at retirement~~
- ▶ Retirement savings vehicles – Back to basics!
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- ▶ ~~What is the ideal objective at retirement?~~
- ▶ ~~Lets compare with actual Life Outcomes~~
- ▶ ~~Trustees have the 'Power of Influence'~~
- ▶ What can be done differently?
- ▶ Concluding Remarks

WHAT COULD I HAVE
DONE DIFFERENTLY?



Where
Who
What
What
Who
When
When
When
Why
Why
Why
When
What
When
How
How
Why
Where
Who



Roles Players - From the employer's perspective

- ▶ What role can the workplace play in strengthening the well-being ecosystem being pursued?
- ▶ Organisations need to view themselves not only as employers that should pursue goals of transformation, diversity, inclusion and social cohesion.
- ▶ They can create products and services, that respond to social problems and challenges, and present more integrated strategic plans than has been the case for differentiation, innovation and bottom-line growth.



Roles Players - Financial service and benefits providers

- ▶ There is an opportunity to develop financial and other products and services that best respond to customer and end-user needs.
- ▶ Formal solutions still have a long way to go in addressing the financial needs of the majority.
- ▶ Refocus financial saving models from catering only for those who are employed to addressing the needs of a society where a wellspring of indigenous schemes emerges to cater for the economically disadvantaged.



Roles Players - Policy makers

- ▶ Have an important role to play in shifting the debates away from a narrow focus on ‘growth targets’.
- ▶ Much can be read from the recent focus on ‘inclusive growth’ rather than just ‘growth’.
- ▶ The policy debate is yet to shift towards a broader focus on multidimensional well-being.

WHAT COULD I HAVE
DONE DIFFERENTLY?



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Maybe... start with the END in MIND!

- ▶ Take lessons from retirees who got it right!
- ▶ Re-look and Review;
- ▶ Sink in a dip-stick, on the critical factors affecting employees' financial well-being;
- ▶ Ask the right questions which make the critical difference!





Re-look and Review!

- ▶ In general contributions towards Employees retirement savings are low
 - Employer range 12% – 20%;
 - Employee range 0% – 7%;
- ▶ Don't just come in and manage what you Find
- ▶ Trustees have the “Power” to review and influence change





Re-look and Review!

Retirement Fund

- ▶ Employer Sponsored retirement funds typically contribute a total of between 12% to 18%
- ▶ i.e 18% = 5%(EE) + 13%(ER)
- ▶ Fund management costs are met from ER contri.
- ▶ Thus weakening the value proposition
- ▶ ER's responsibility is typically limited to the mandatory contri.
- ▶ Consequently the ER is perceived to be absolved from any further liability

Gratuity Scheme

- ▶ In the instance of Gratuity; the Employer rewards service with 'periodic cash lump-sum empowerment'
- ▶ There is a more progressive deferred compensation mechanism
- ▶ i.e lumpsum @
 - 1st – Contract expressed 25%
 - 2nd – Contract expressed 27.5%
 - 3rd – & subsequent expressed 30%
- ▶ The vehicle is expense free!... To the Employee



Re-look and Review!

Retirement Fund

Gratuity Scheme



Ts & Cs apply!



Re-look and Review!

**Are these cast
in stone?**





Re-look and Review!

Retirement Fund

Gratuity Scheme



- ▶ We need change to balance out the scales!



Try new ideas...

YOU ONLY LIVE ONCE

YOLO

**But Also Only Have One Shot at
Saving for Retirement**



Try new ideas...

- ▶ How can we improve member outcomes at retirement?
- ▶ On a daily basis, seek for ways to impact positively retirement outcomes
- ▶ Keep it on the Radar and integrate this with Principles of good corporate governance
- ▶ Define a set of envisaged strategic outcomes; and continuously measure and evaluate i.e.
 - Member communication & awareness
 - Better investment outcomes
 - Improve claims management and benefit administration etc

Try new ideas...

- ▶ Going forward consider 'building it in'!
- ▶ Look at creative ways to manage the issues





Try new ideas...

Definition of Fund Salary

Fund A	Fund B	Fund C
15% contribution	15% contribution	15% contribution
<ul style="list-style-type: none">• Basic salary• Allowances• Sales commission	<ul style="list-style-type: none">• TCTC	<ul style="list-style-type: none">• Basic Salary
Fund Credit	Fund Credit	Fund Credit



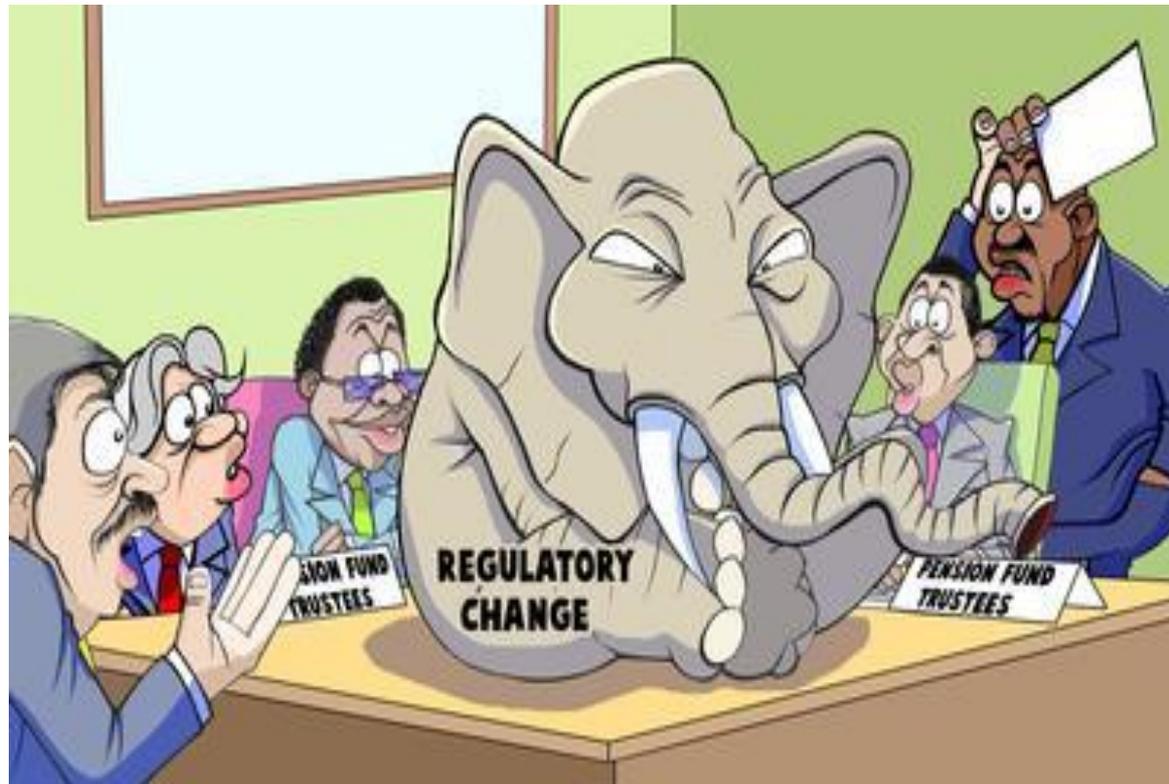
There is still room to converse around the issues

What are the prohibitive constraints of conducting the role:

- ▶ Proximity of Board Members; resulting in increased Management expenses
- ▶ Time constraints and competing priorities
- ▶ Composition of Board members

There is still room to converse around the issues

- ▶ Developments in the Regulatory landscape!
- ▶ These arise to protect members' interests



There is still room to converse around the issues

- ▶ ...But!, we also have to look at the costs side!





There is still room to converse around the issues

- ▶ ...from the conversation we have just had now,
- ▶ Essentially, these costs are fully funded for at the expense of the Member
- ▶ The Regulatory environment is noble in its cause
- ▶ Enables for an enhanced Member 'Retirement Experience'
- ▶ Cultivates opportunities for improved retirement outcomes

However...

- ▶ If we continue at this trajectory
- ▶ Members will continue to retire poorly





Concluding Remarks

- ▶ You are the Conductor of the Orchestra!
- ▶ Its your responsibility...



Acknowledgements

THANK YOU

Benefits Barometer 2017

Benefits Barometer 2018

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Sanlam Benchmark Survey

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Other various contributors

*External experts who shared their thoughts
and insights*

*To the clients who allow us to analyse their
data on an ongoing basis.*