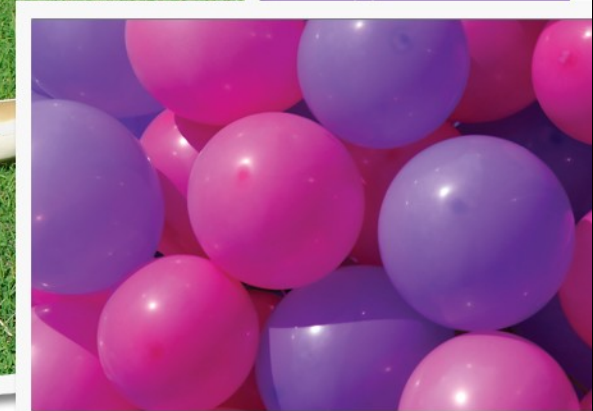


The impact of retirement reform on employee benefits

Willem Loots



LIFE • HEALTH • INVESTMENTS • BUSINESS

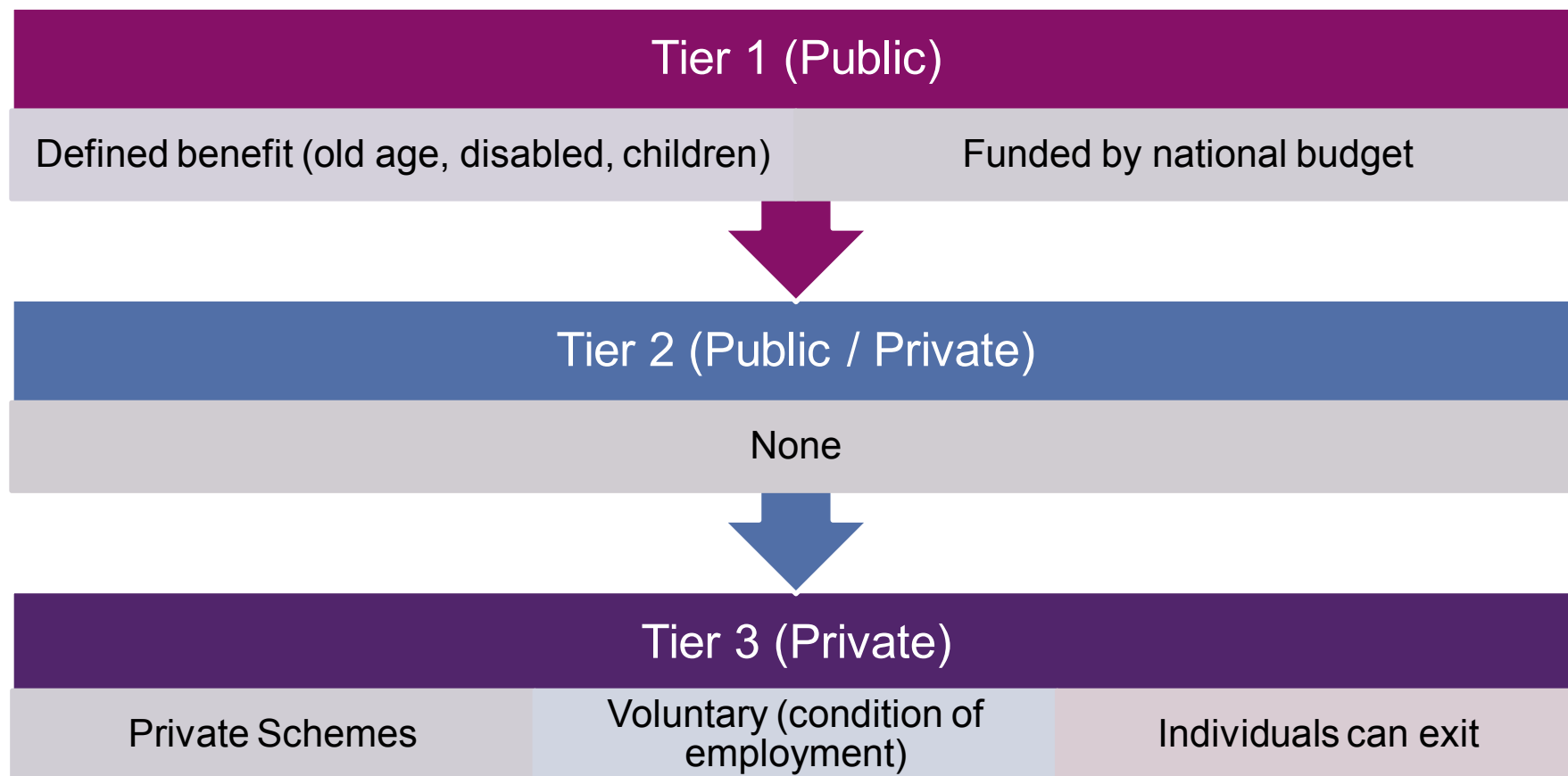


Agenda

Savings and Protection benefits:

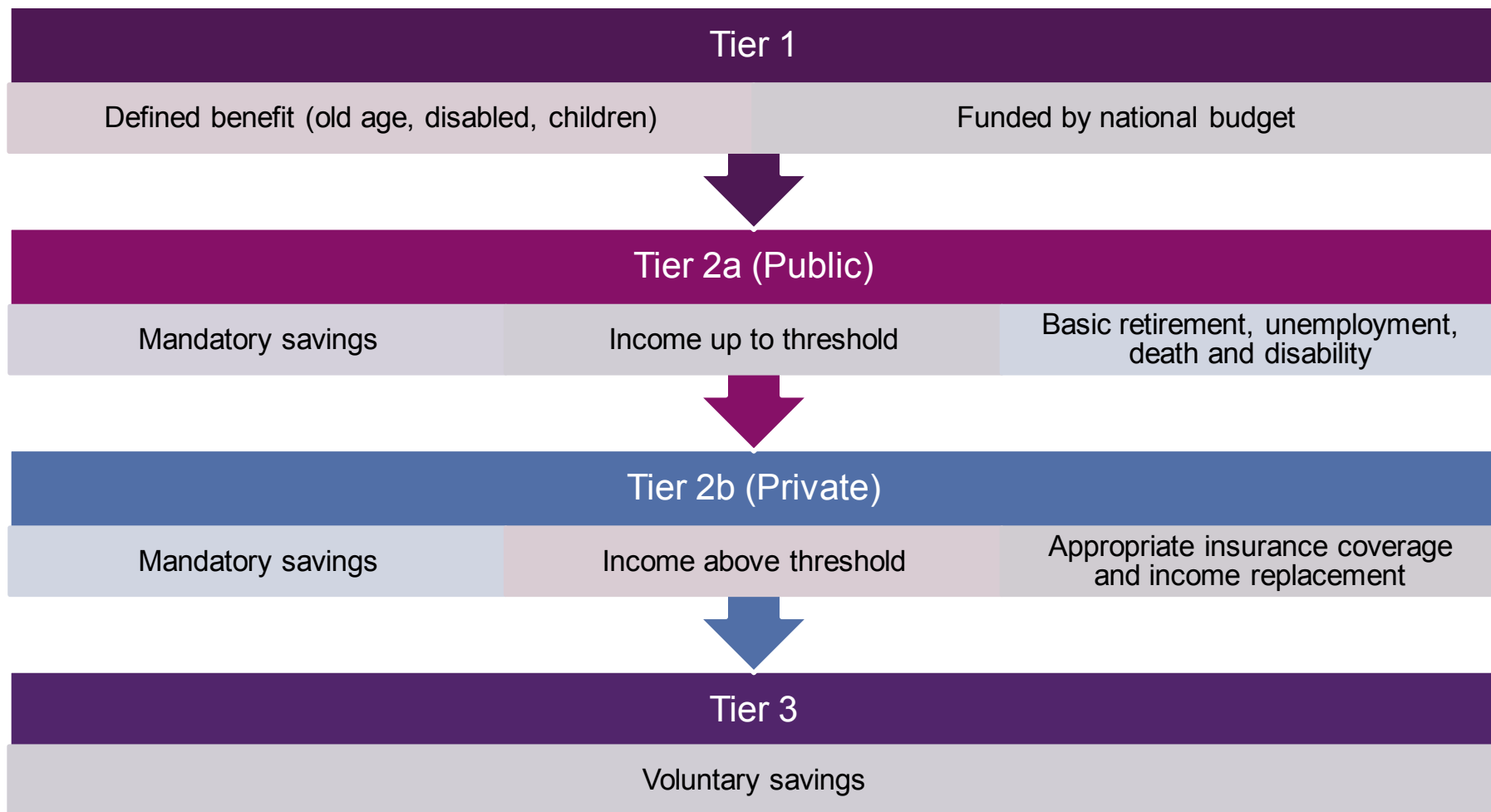
- Impact of reform on existing industry
- Impact of an increasing retirement age

Introduction to reform – current structure



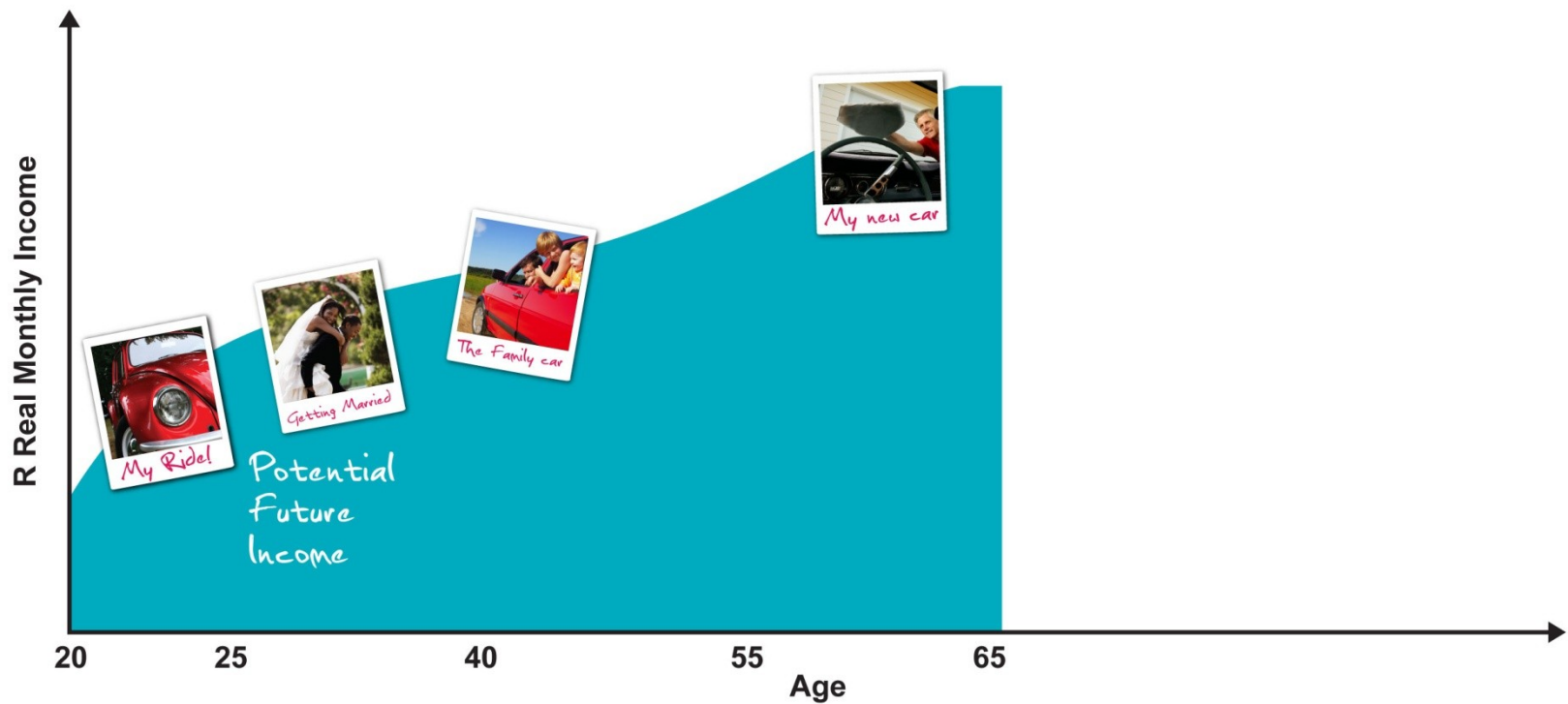
Based on information from the OECD and World Bank

Introduction to reform – proposed structure

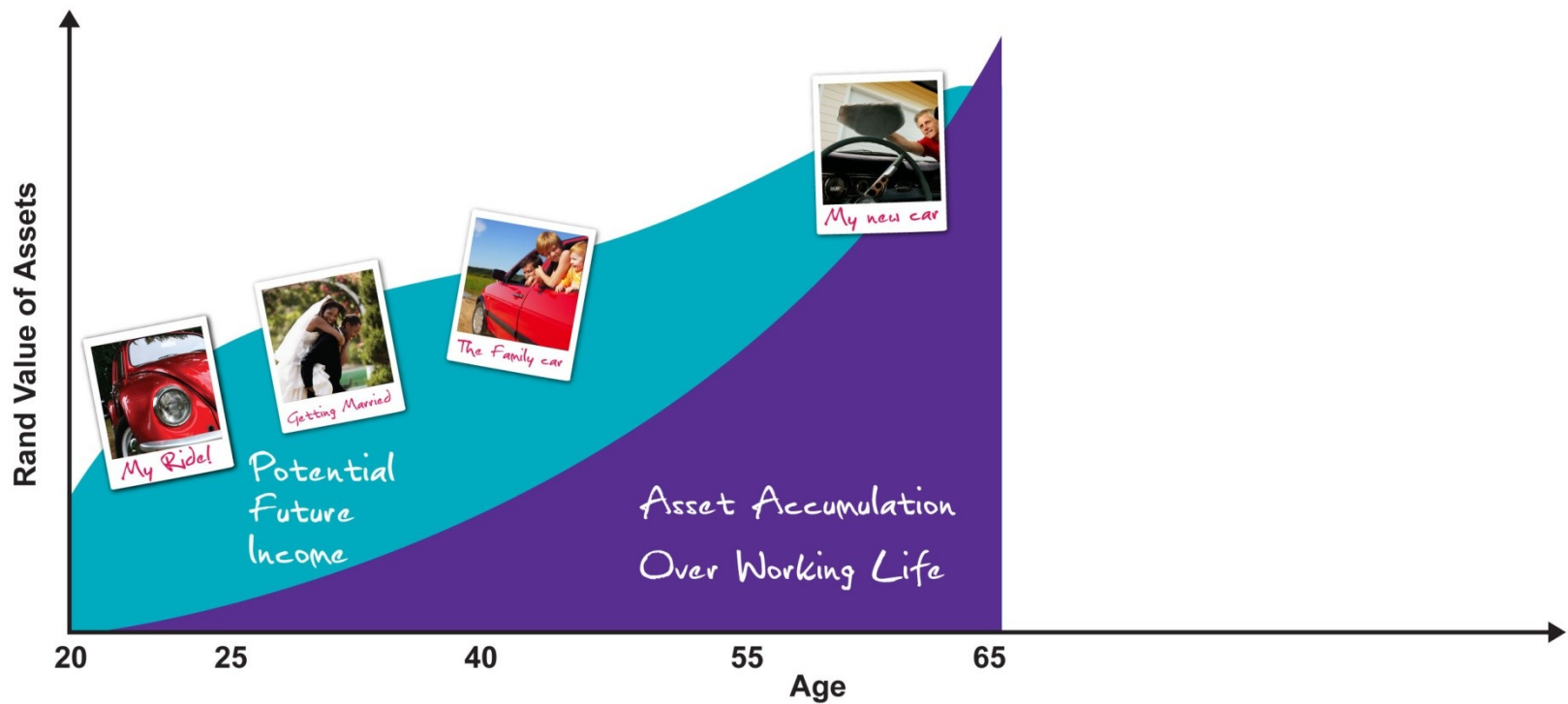


Information in graphic compiled from: Social Security and Retirement Reform, Second Discussion Paper, National Treasury, 2007

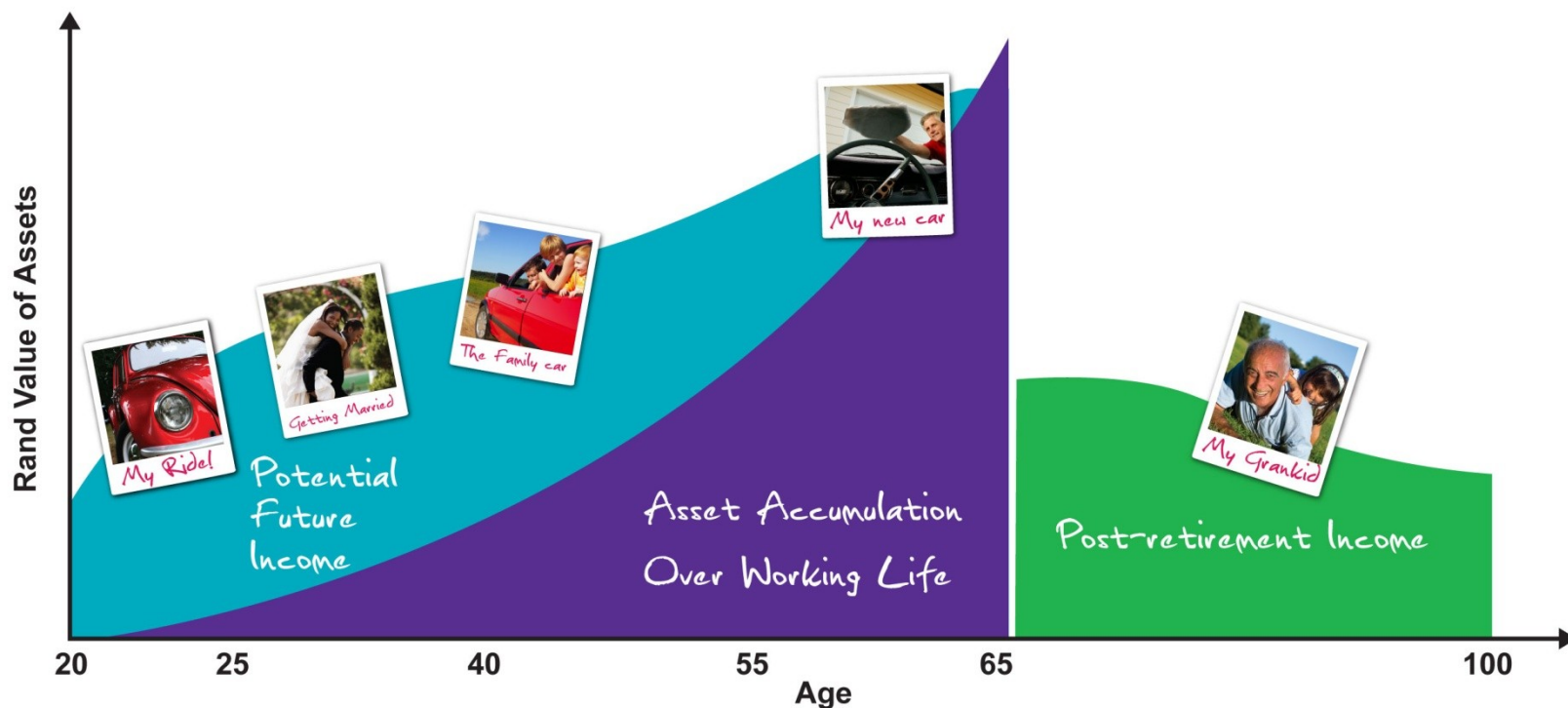
Most important asset...



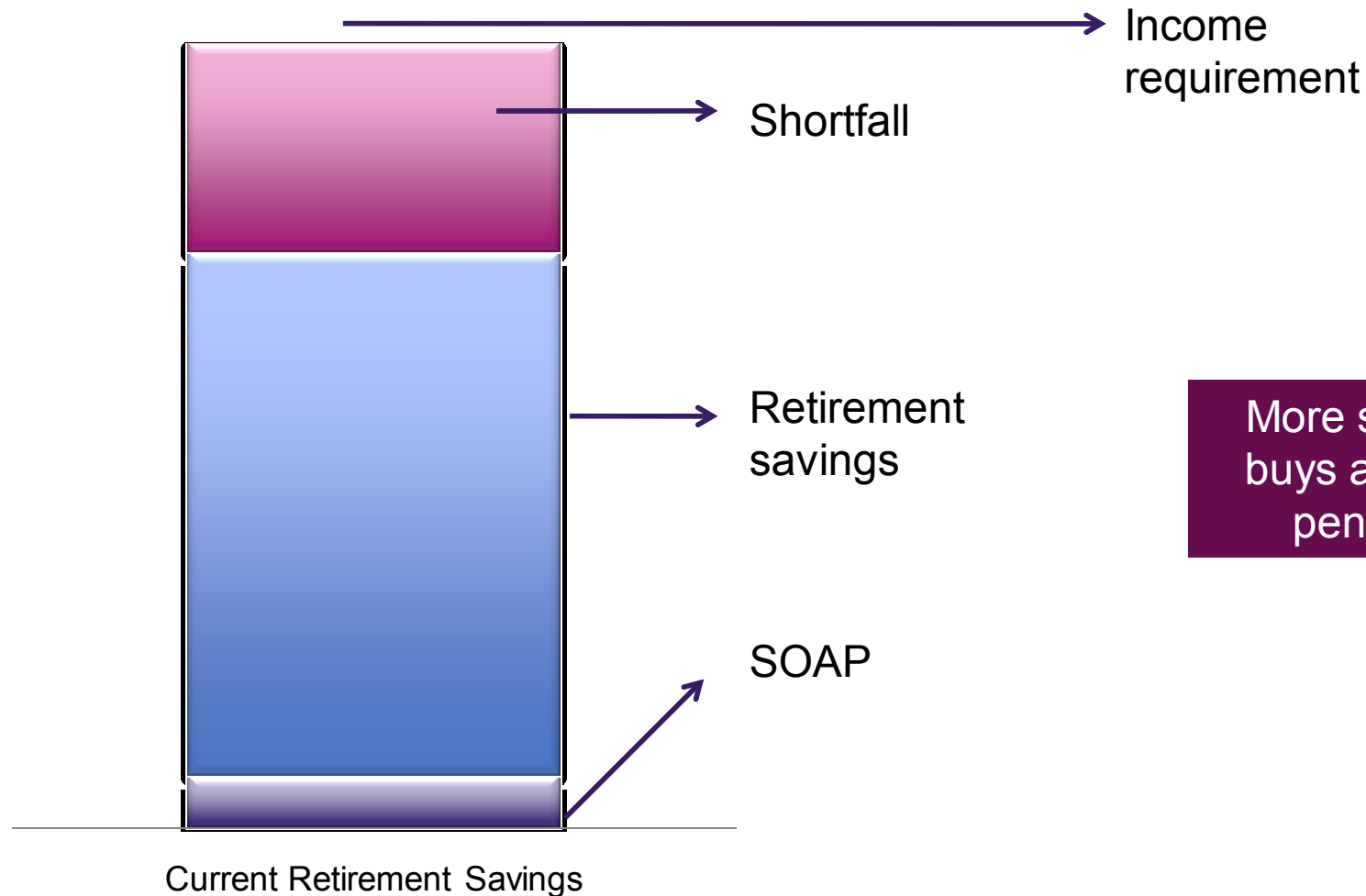
What does it enable?



What is also being enabled - Post-retirement income

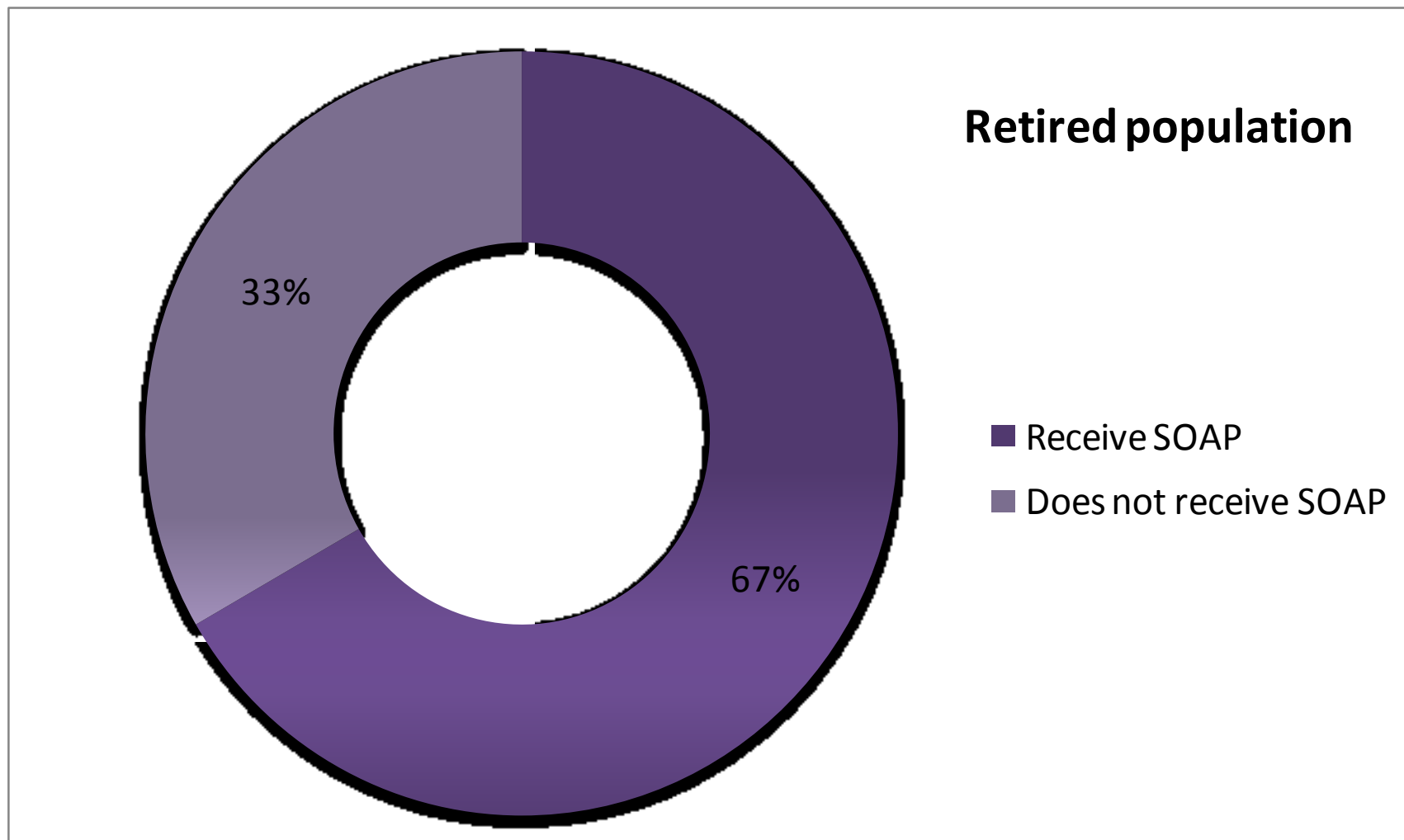


Current Picture – Pension from retirement savings



More savings
buys a higher
pension!

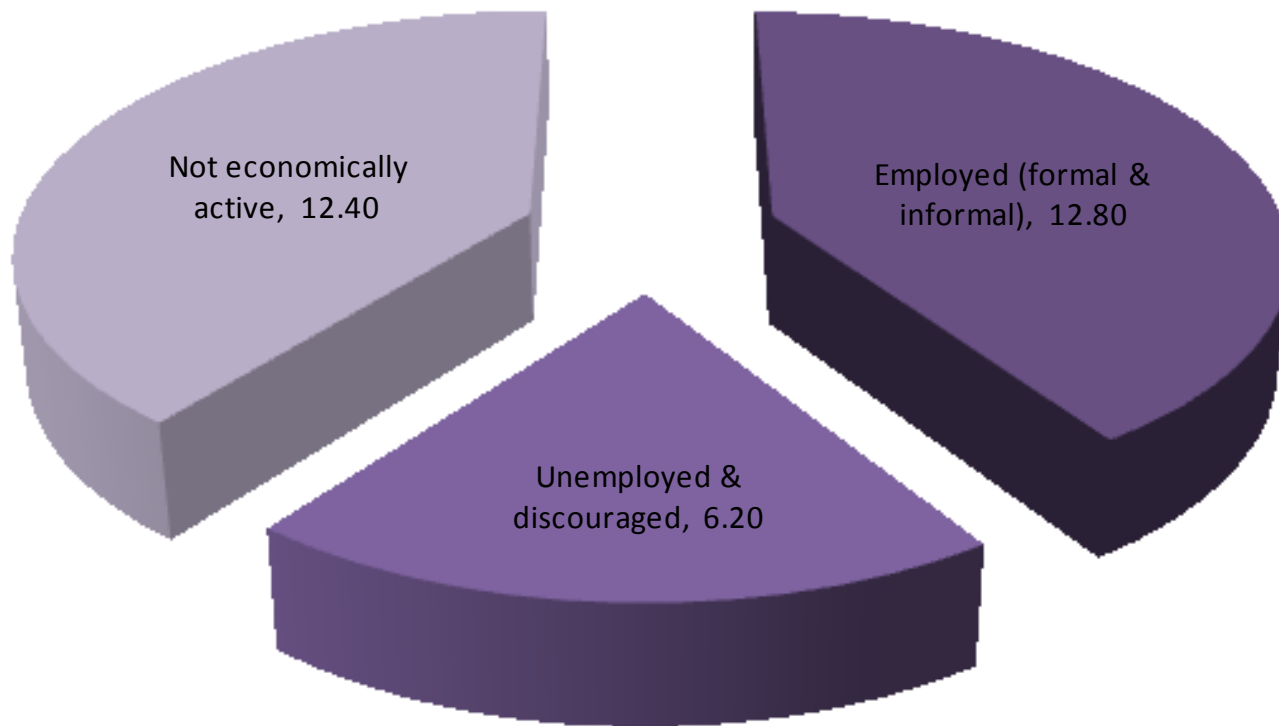
Current picture - SOAP



Source: Budget Review 2010, National Treasury, 17 February 2010

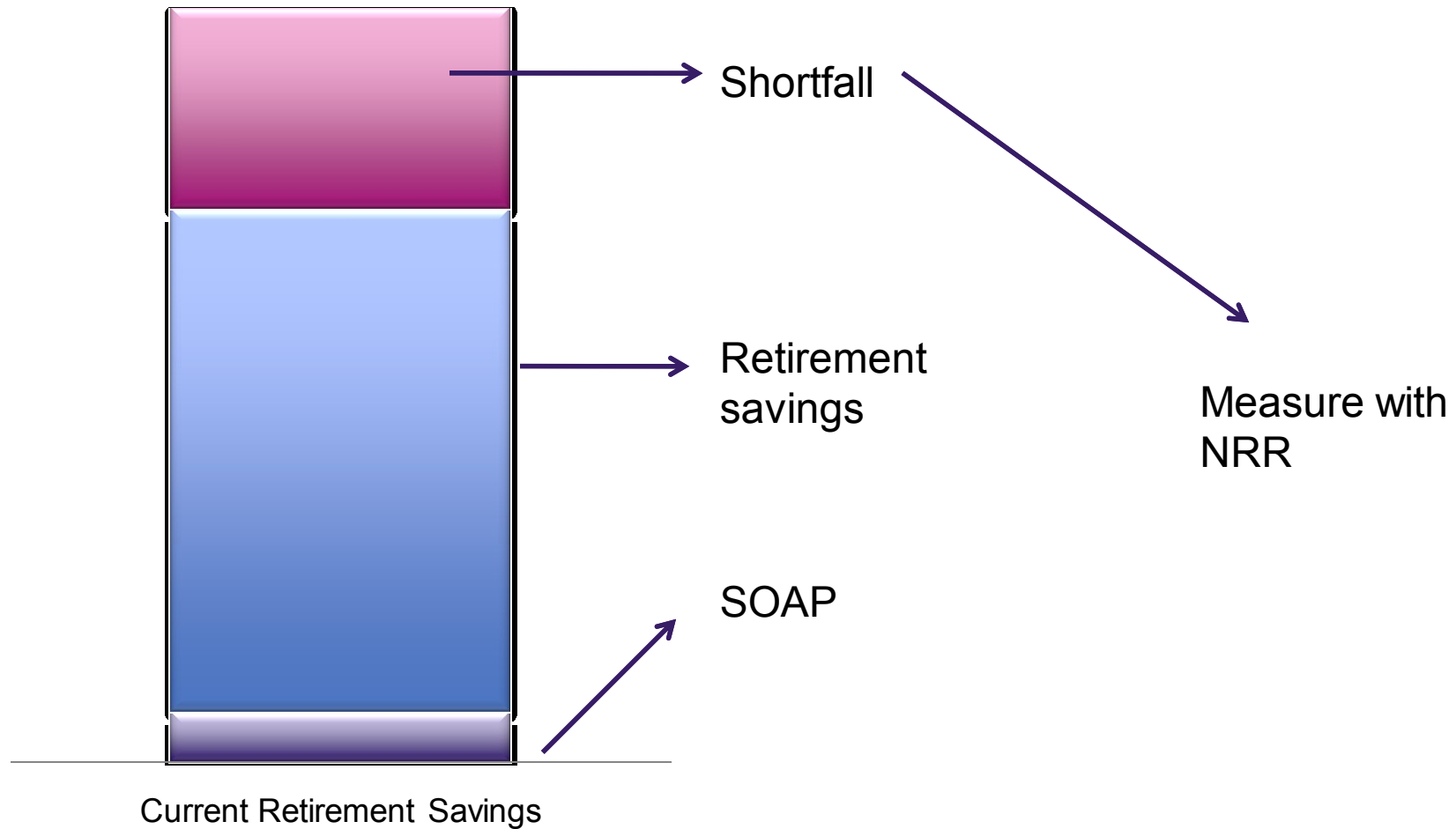
Current picture – continued dependence on SOAP

Working age population (millions)



Source: Quarterly Labour Force Survey, Quarter 2, 2010- Statistics South Africa

Current Picture - savings



Current Picture – savings

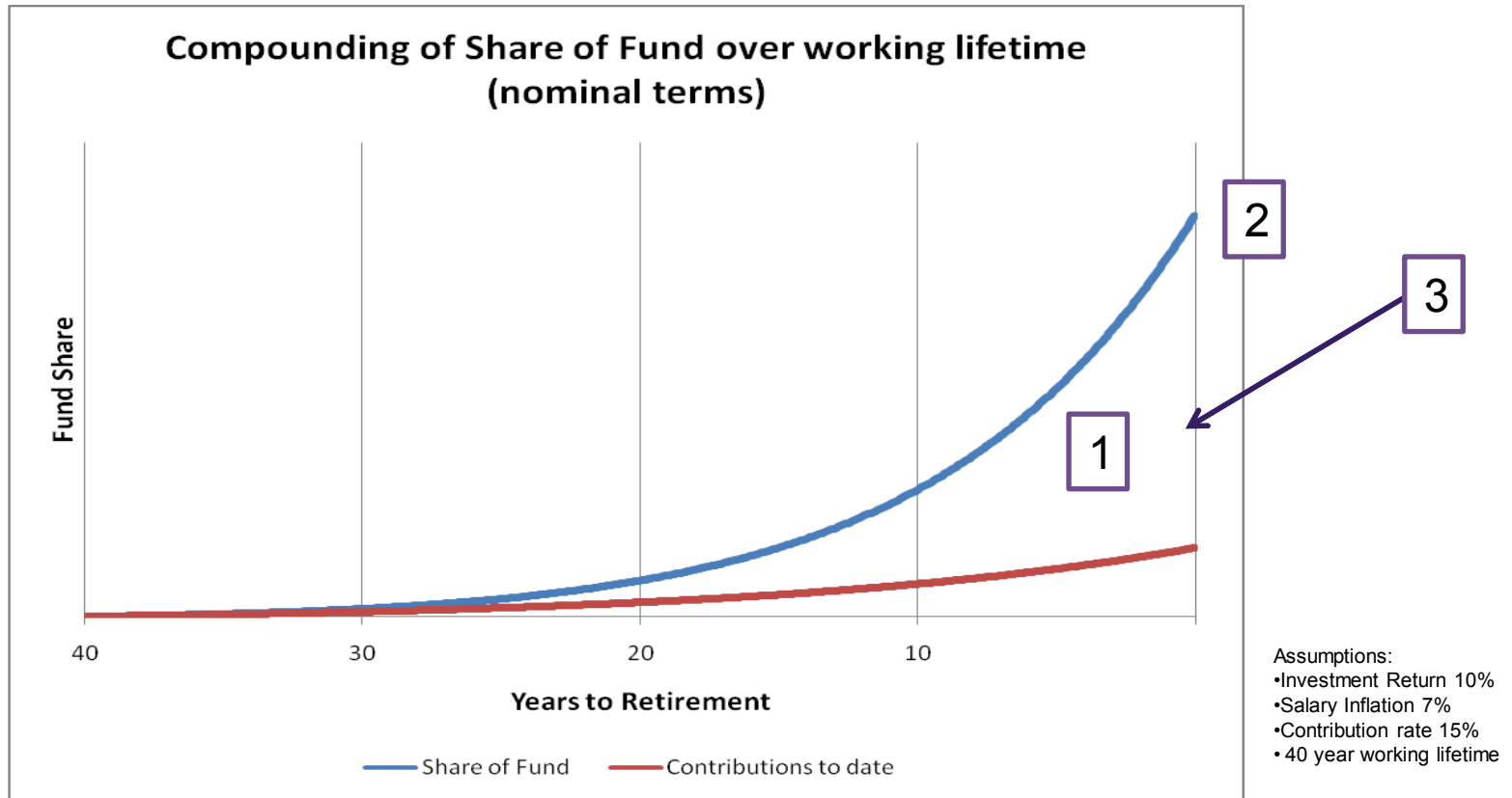
Net Replacement Ratio (NRR) = pension that can be bought at retirement expressed as a percentage of member's salary at retirement

Research shows that a pension equal to **60%-75%** should be adequate to maintain current lifestyle in retirement

Current picture: Factors that influence NRR

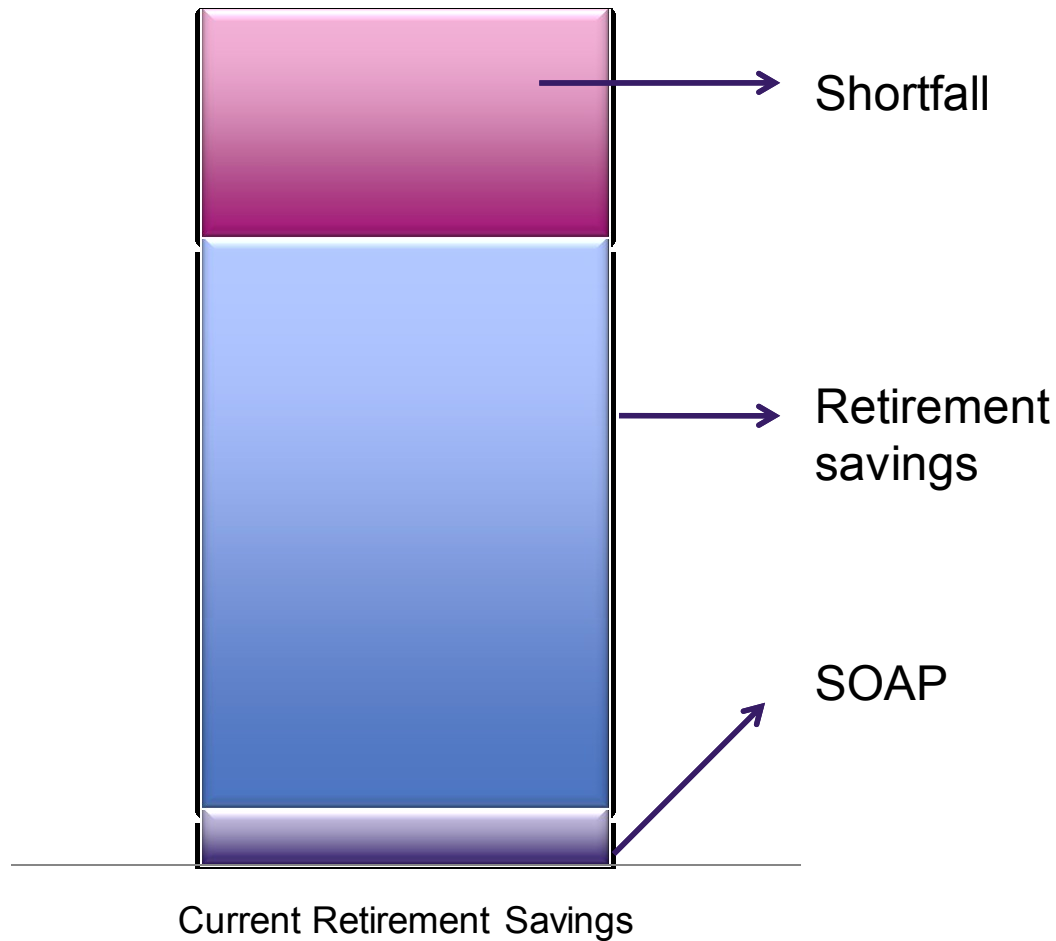
- Investment returns achieved
- “It is estimated that more than half of those who reach retirement age with a funded pension receive a retirement income that is less than 28% of their pre-retirement income.”
- Social Security and Retirement Reform - Second Discussion Paper, National Treasury, 2007
- Cost of annuity factor at retirement
- Preservation at withdrawal

Savings in current system

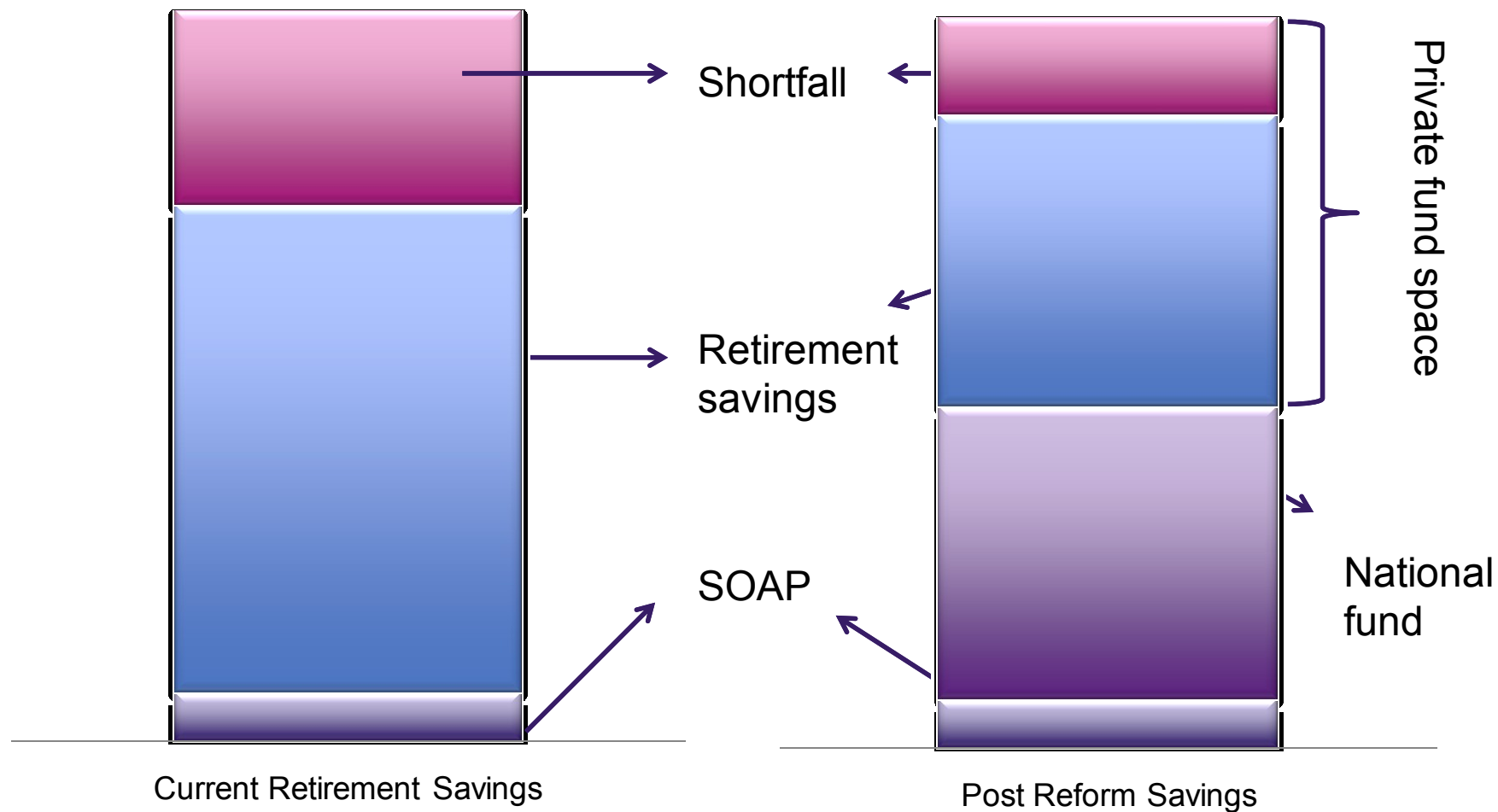


1. Percentage of total Investment return earned in last 10 years: **71.7%**
2. NRR at retirement : **90.5%**
3. NRR if contributions delayed by 10years (or accumulated sum withdrawn at year 10): **56.21%**

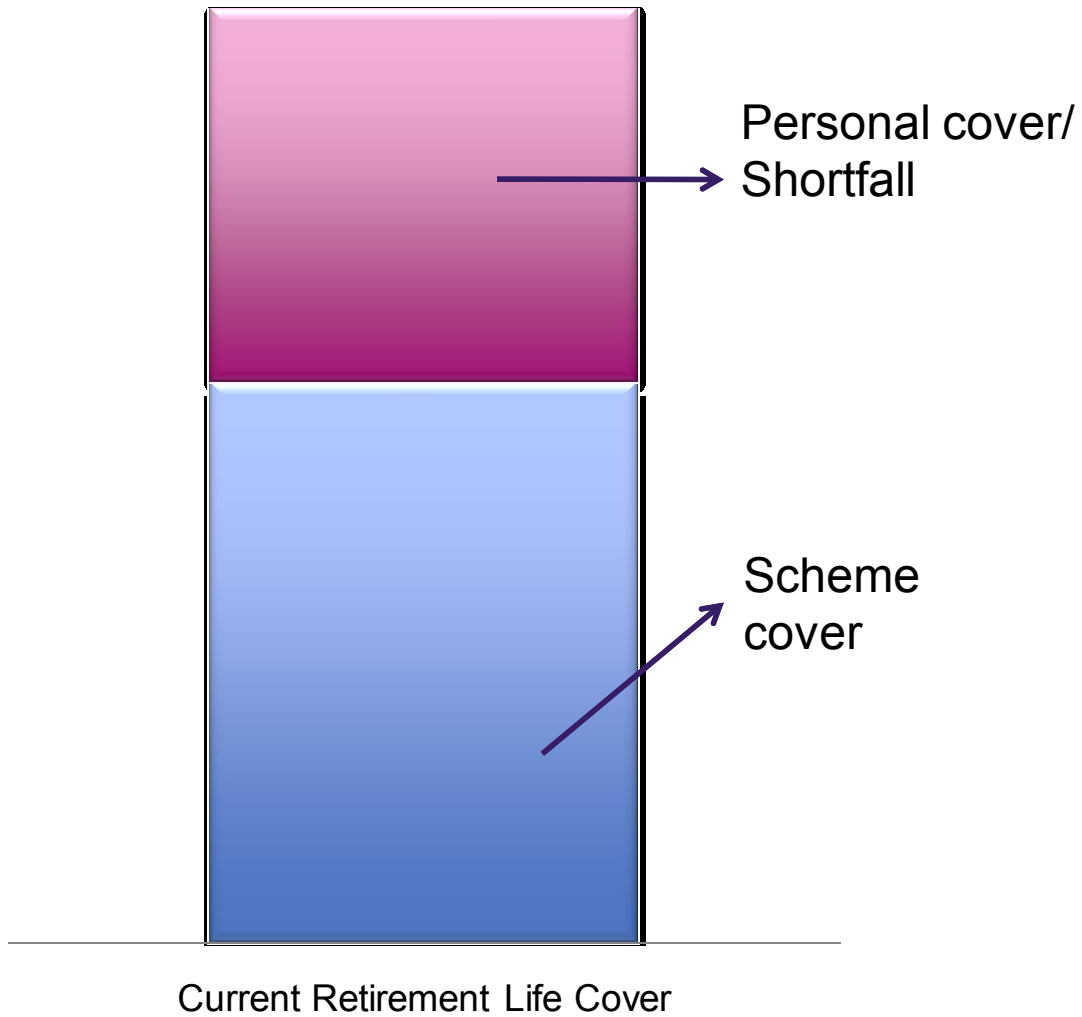
Current Picture - savings



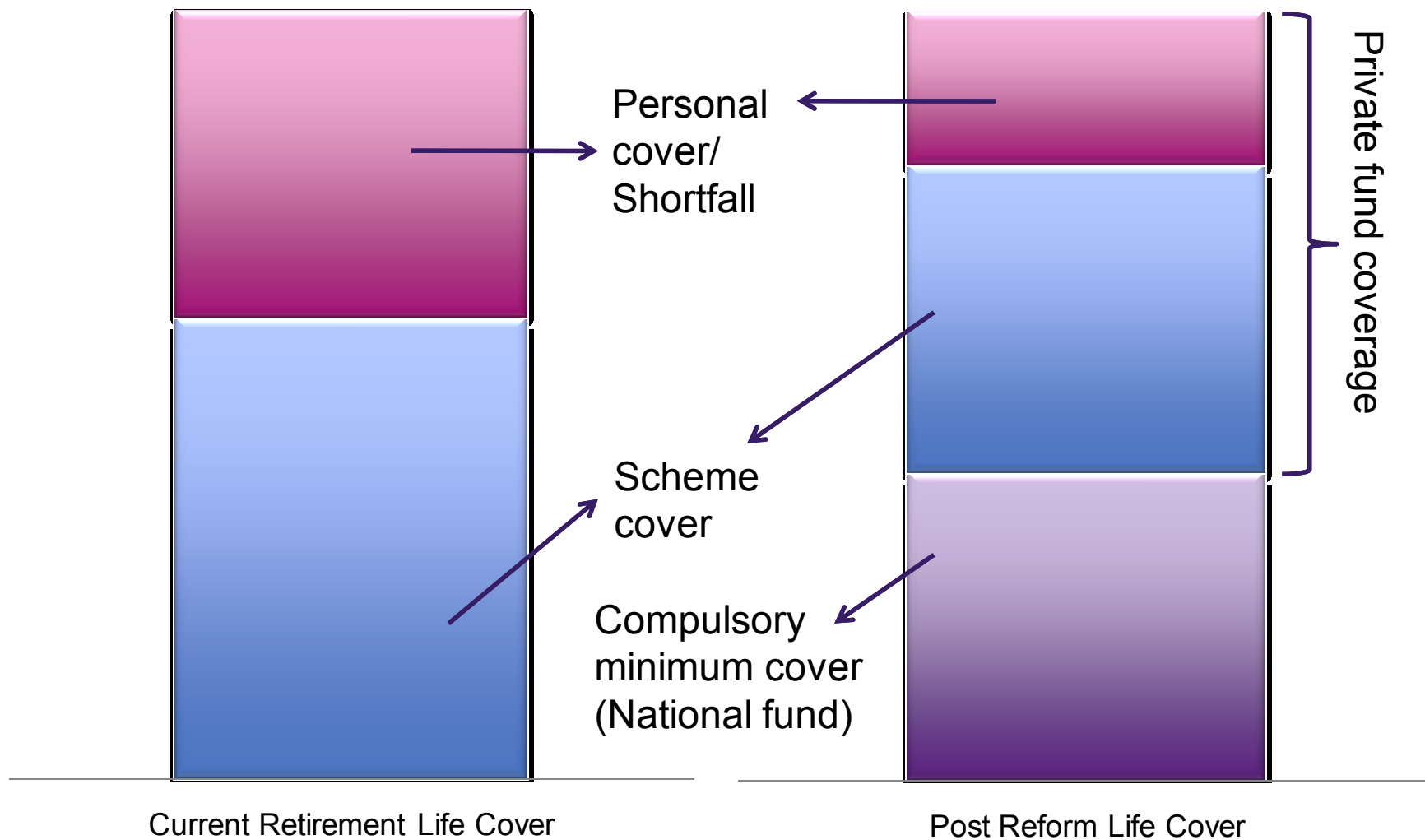
Impact of reform - savings



Current Picture – Life Cover

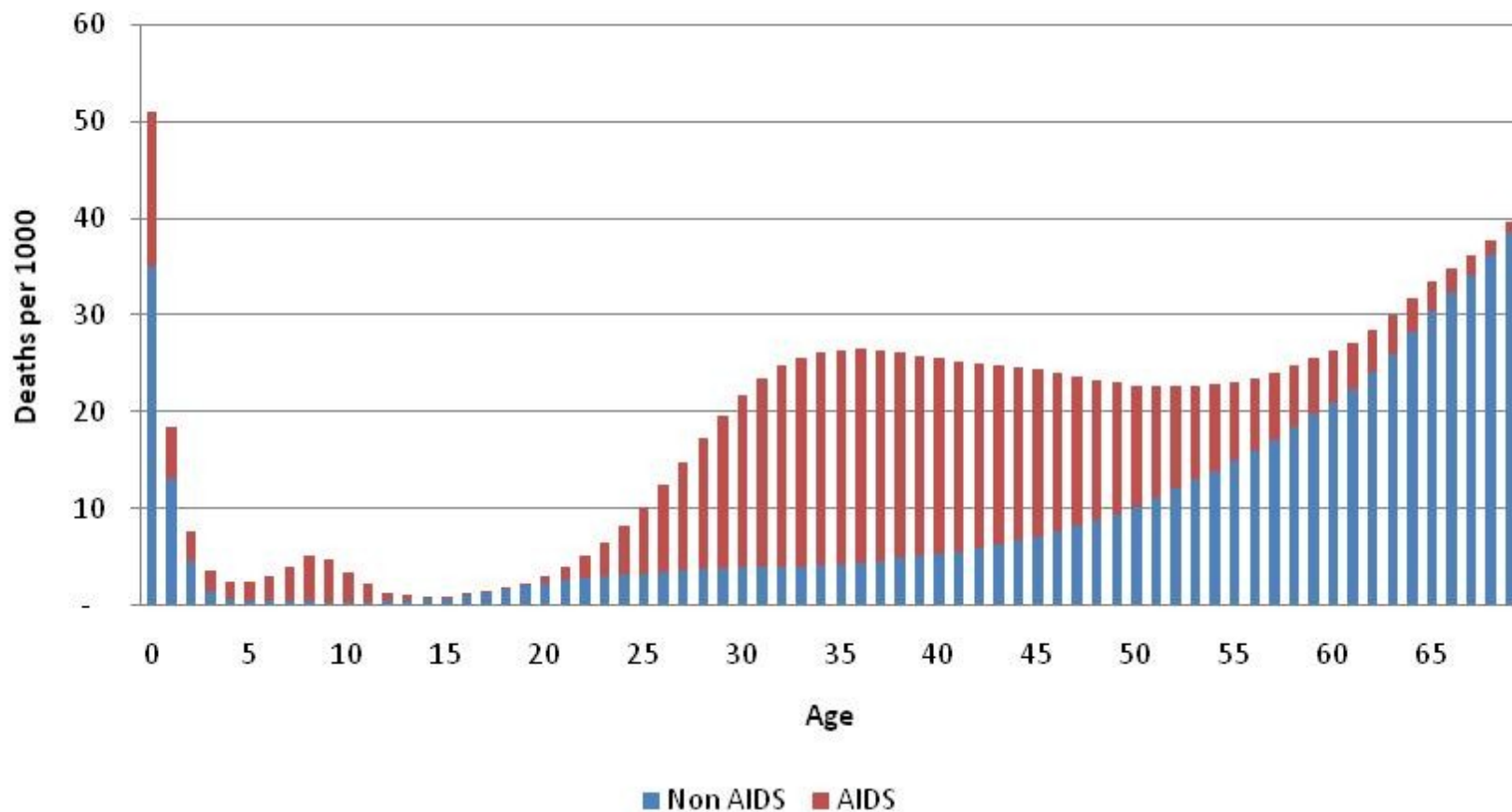


Impact of Reform – Life Cover



Current Picture - Mortality

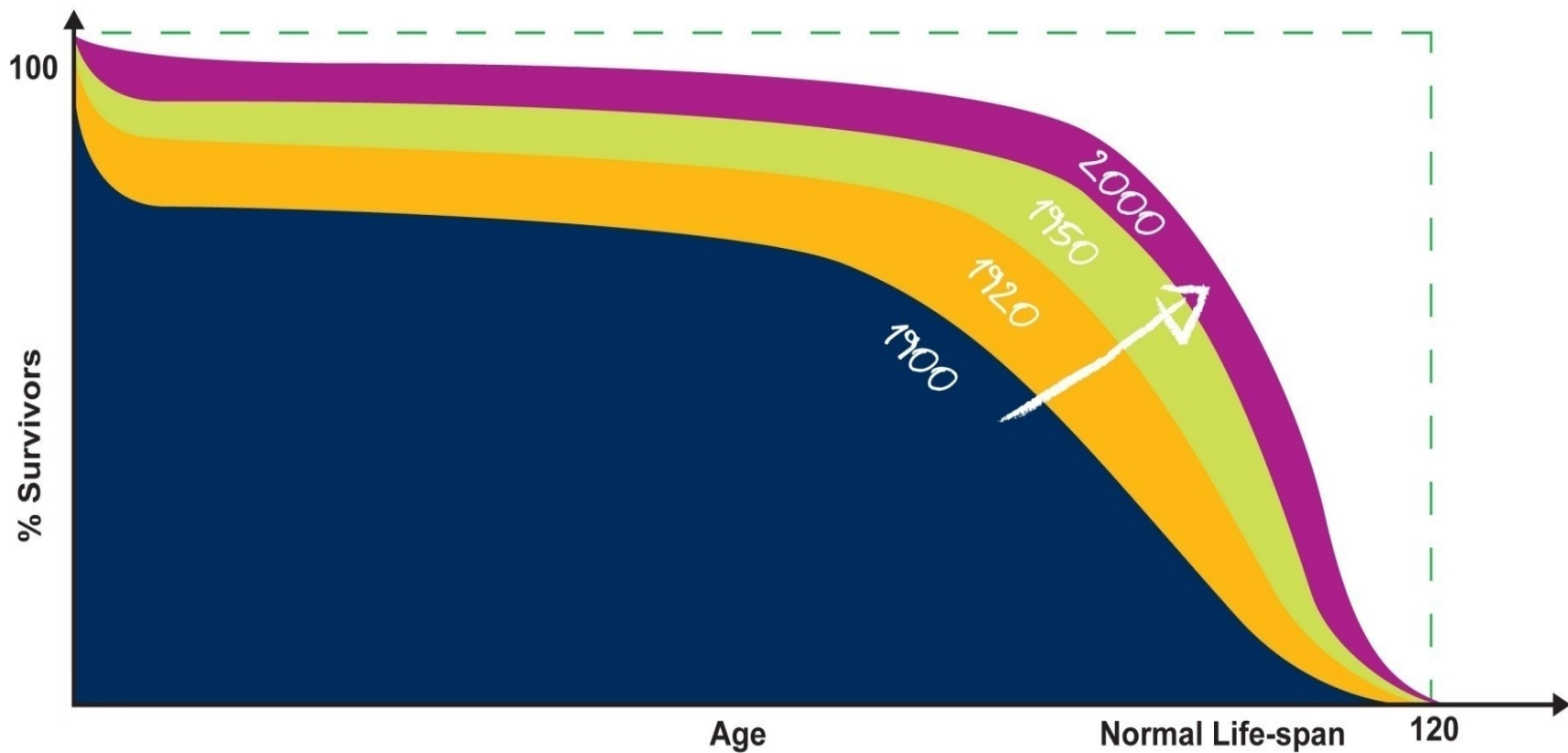
ASSA2003: Mortality breakdown 2010



Source: Actuarial Society of South Africa

Current Picture: Longevity

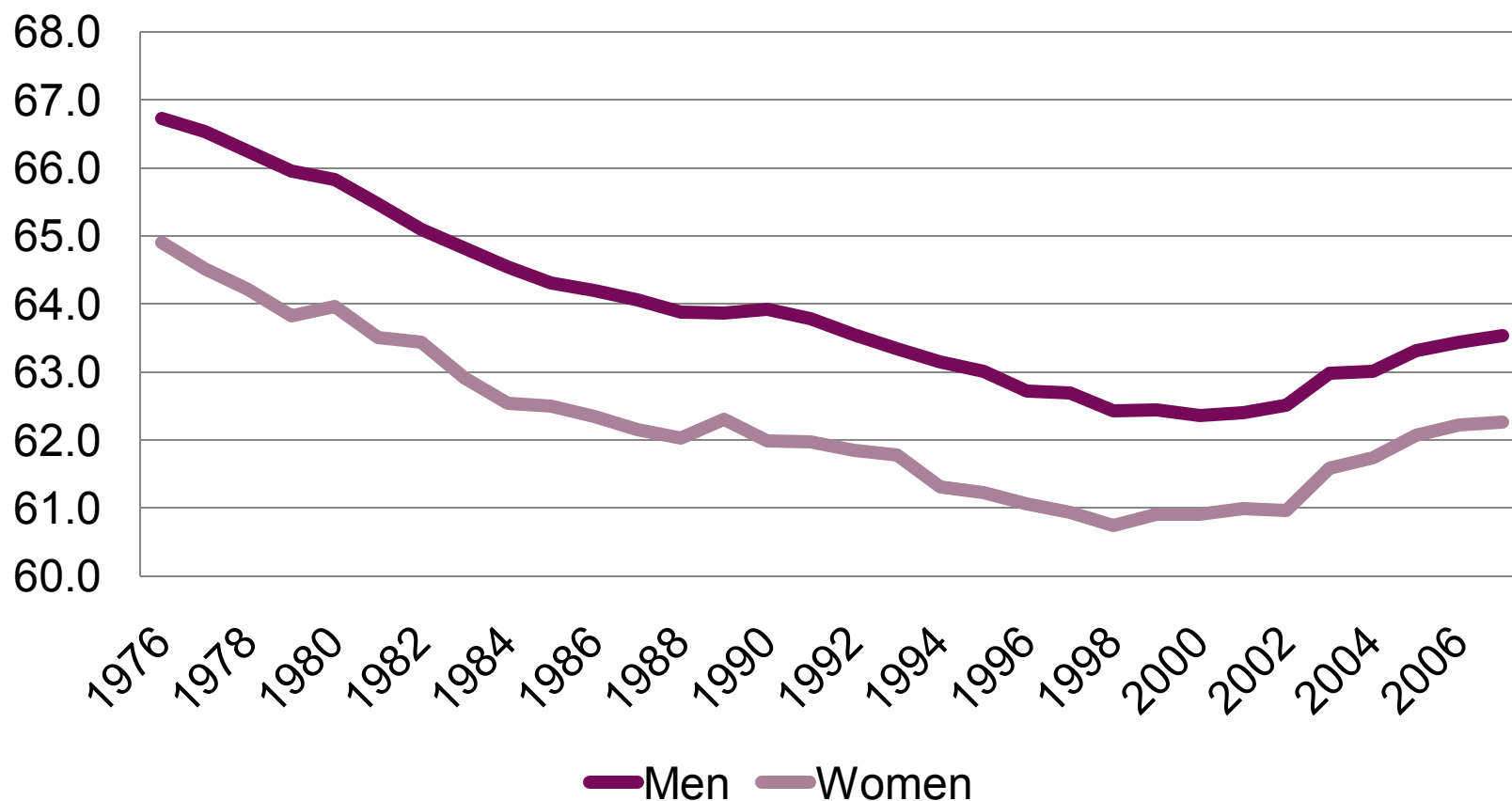
Typical picture of reduction in mortality



Source: Liberty Life

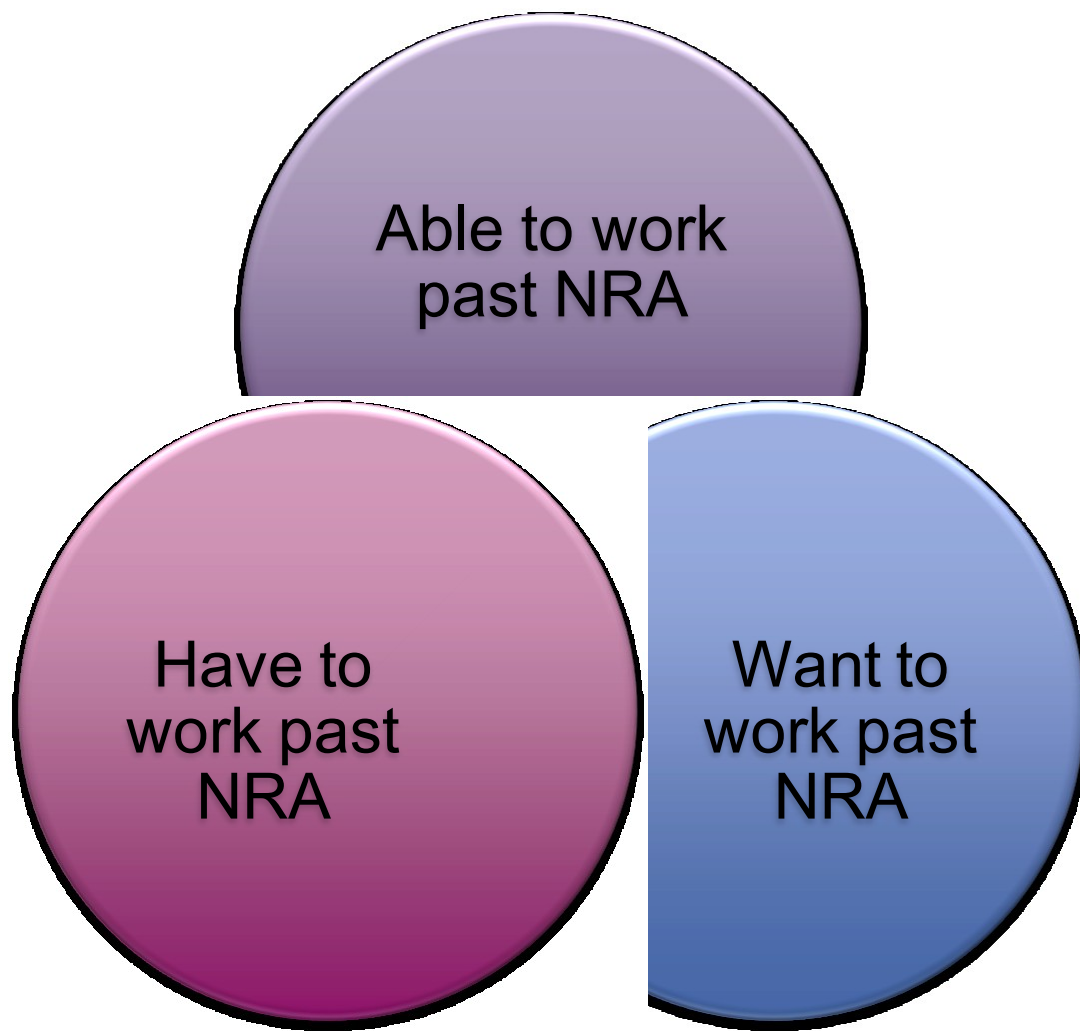
Increases in retirement age

Trends in the average effective age of retirement in OECD countries, by gender, 1972-2002



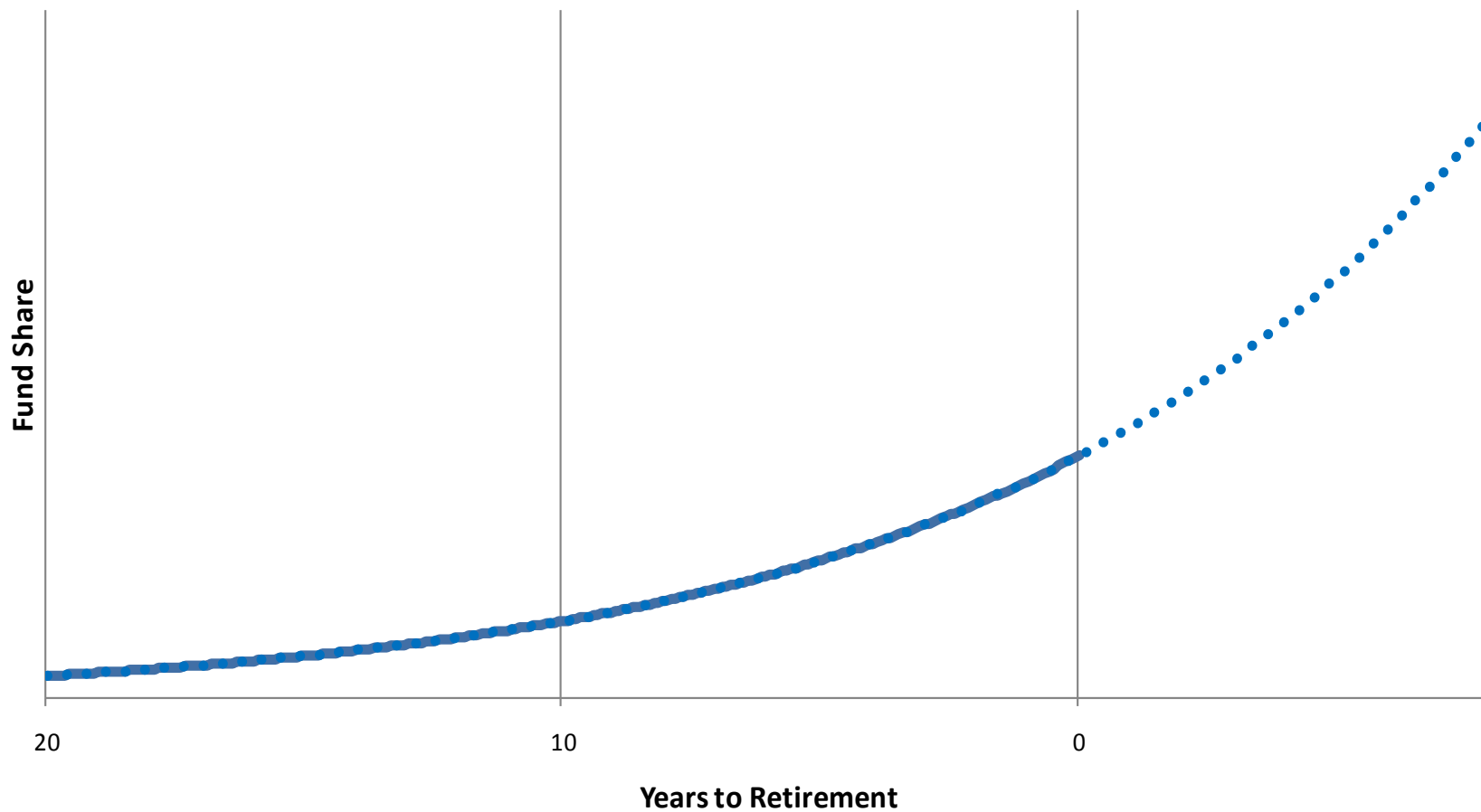
Source: *Pensions at a Glance 2009: Retirement-Income Systems in OECD Countries*, OECD

Working longer...



One of the benefits of working longer....

Additional retirement savings post retirement



Closing thoughts

Now:

- South Africans do not save enough!

Reform:

- Role for existing industry, (particularly umbrella funds) in a reformed environment

In the meantime...

- We need to consider the implications and benefits of increasing retirement ages

Questions?

