



– largely due to changing market returns and interest rates. It clearly demonstrates the effect of market returns on retirement benefits, and the importance of staying invested as long as possible,” says Furstenburg.

#### RETIREMENT FUNDS AFFECTED

The impact on employees is clearly significant, but what about the im-

individual members, whose savings could be significantly corroded by the higher cost structure.”

He adds that in the short term, the implications for the employer and the pension fund trustees are not too obvious. “But in the medium to long term, this may be an indictment on both. Both the employer and trustees ought to have a common objective to ensure that the members retire comfortably. Unfortunately, long after an employer is gone, the member who has not saved sufficiently shall be the responsibility of the state and the taxpayer.”

#### SOLUTIONS

“For this reason, as a major part of the reform process, Sanlam is calling on consolidation of funds,” says Masilela. “Through economies of scale of both

members and asset base, the costs of delivering to the member over time could be reduced. Consolidation will also enable better regulation for the benefit of all.

“In addition, people need to

be educated in an objective and relevant manner and the responsibility is that of all key players in the industry - from government and service providers, to employee representatives and boards of retirement funds.”

Furstenburg agrees, saying that resigning to access pension money jeopardises comfort in retirement, and is not something that is easy to catch up. “Individuals who have retirement annuities need also not simply make their policy paid up when times are tough. Rather, they should explore the options available with the assistance of their financial adviser or insurer. Some insurers are willing to make

special arrangements to ease clients through tough times.”

According to Masilela, the key tactical and also strategic intervention is to implement preservation as soon as possible. “Of course, this consideration emerges with its own challenges, but these are not insurmountable. If properly designed, this arrangement could minimise the leakage from the system, ensure continued savings and guarantee that people remain invested for long periods of time without any significant negative implications.” **35**

### CASHING IN RESULTS TO PAY DOWN DEBT COULD BE POSITIVE. HOWEVER, OF SOUTH AFRICANS HAVE NEVER FOLLOWED THIS TREND, ELIAS MASILELA, HEAD,

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pact on the employer and the retirement fund?

“If the ‘mirror tendency’ in which the outflows are mirrored closely by new entrants is sustained, there may be no significant impact on a fund, in terms of cash flow,” comments Masilela. “However, the impact could be negative in two respects. The first is if the outflows outstrip the inflows. Secondly, as people leave their jobs and cash in their pension funds, those that re-enter do so with no lump-sum assets to make up for those that have been withdrawn. The fund is always ‘bleeding’ thus reducing the overall resource base. This would raise the unit costs of doing business, and these costs are transferred to

**GRAPH 1**  
DC retirement outcomes for people retiring in different years in the 1990s to 2008

Source: P Antolin & F Stewart, 2009 (OECD calculations)

