Change retirement fund statements to change members' thinking


Shaun Levitan

Presenting retirement fund members with regular statements that set out the value of their fund credits like bank account statements can actually promote incorrect thinking and have the unintended consequence of fostering undesirable behaviour by members.

This is according to Shaun Levitan, Executive Director at Colourfield Liability Solutions, who says, "The current investment practice in South Africa, consistent with legislative requirements, is to provide members of defined contribution retirement funds with the value of their fund credit- or account balance - on a regular basis. This information is clearly important but on its own, it is not meaningful. In fact, providing this information in isolation might actually be dangerous."

Levitan cites the example of a retirement fund member who receives a statement showing an accumulated fund balance of R1 million. "Imagine that for some years, this member has believed that R1 million is the target she should be aiming for. On receipt of this latest statement, she therefore believes that she is on track for a great retirement.

"However, the reality is that knowing her account balance in isolation provides the member with no insight into her likely standard of living in retirement. Instead she may have a false sense of comfort over her retirement finances by imagining that if she leaves her job it is acceptable to access some of her fund credit in cash, because she believes she already has more than is ultimately required."

He says it would be more useful for the member to receive a statement from her retirement fund that reveals the following:

- The monthly income she would receive if she used her fund credit right now to buy a monthly annuity
- The amount that such a monthly annuity would increase due to her projected future contributions towards her retirement savings
- The final projected monthly annuity at retirement (in real terms), which would be expected to increase annually with inflation.

"These calculations are technical but can easily be done in a transparent manner. Providing this information to an individual changes the statement from referring to a 'pot of money' to that of a stream of income at retirement. It recognises that retirement income – rather than a projected amount of capital - is actually the goal, because the role of a retirement fund is to maintain our standard of living in retirement."

Levitan says such information would empower the member to consider questions such as whether she should be contributing more to her fund to boost her level of retirement income, whether she should work longer than her official retirement age from the fund, or whether she should take on more investment risk.

He says that by treating retirement fund members' accounts in the same way as a bank account, members are inadvertently encouraged to focus on an incorrect measure from their earliest interactions with their retirement provision. "South Africa has among the lowest preservation rates in the world when members move jobs. This is a symptom of a system that holds out the 'pot of money' thinking to members on an ongoing basis. However, if the primary focus of communication was instead on members' retirement income, the desire to access these funds would likely be far lower. At the very least, the implications of accessing their funds would be immediately understood."

He adds that presenting retirement information to members in this way would not require a significant education exercise on the part of the trustees, the fund or an employer. "People in general already think in terms of consumption. This way of outlining the information allows members to understand their financial situation in a more holistic manner. The fund credit is clearly an important piece of information but it is not imbued with enough meaning when presented on its own.

"Before spending millions of rand and hundreds of hours on educating members on financial concepts, we should try to interact with them meaningfully. Members understand information when it is presented to them in a way they already think. Communication in this way reinforces that our retirement funds are to provide for our retirement and that they shouldn't be treated in the same way as a bank account."