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BECOME A PROPHET OF CHANGE:

Some are more equal than others

There has never been a period that the world has experienced as much change as we are currently experiencing. We can call an Uber to pick us up in minutes, rent a stranger's apartment in Helsinki or send our partner flowers the same day – all on our mobile phone from the comfort of our living room.

Why then is retirement funding still a problem? We are well aware of the problem in South Africa, but if we look outside of our borders, we see that the problem is just as bad in global markets.

The beginnings of trouble

This is not to say that the retirement funding industry is not keeping up with change. The most recent change that has had an effect on the industry was the move from a defined benefit (DB) to defined contribution (DC) system where the retiree takes on the majority of the risk as opposed to the employer.

This has been a generally accepted change as employers looked to remove the cost of funding for these benefits as they became more expensive (e.g. people live longer, falling interest-rates and a change in accounting). We have not yet witnessed the impact of this move. But that is because the majority of people who have retired, and some who are approaching retirement, have saved for retirement in an industry where DB was still in effect. We have not yet seen a full working cycle where a retiree begins and ends his or her career in a DC world.

Complicating the issue

The issues above are not the be all and end all of the problems the industry faces. The major problem is that the retirement funding industry is stuck in the 1980s while the rest of the world is keeping up with the times.

We live in a world of instant gratification and access to information. Clients want to see benefits now and are able to gain access to the information which could potentially tell them where they are in their retirement savings lifecycle.

Another issue that is complicating the problem is that everyone is treated the same. A doctor, a lawyer, a journalist and a construction worker who are all the same age are ring fenced together with the same investment strategy based solely on one commonality, their age. This despite the fact that the lawyer might not have preserved their savings, the doctor has a lot more dependents to look after, the journalist plans on retiring early and the construction worker has been making additional contributions.

The prophet of change

We need to be prophets of change to our clients. We need to look for solutions and then offer them if we are ever going to leave behind the problems that we currently face.

The industry needs to take a goals based approach to retirement. We need to look at the challenges that we are facing and then bespoke solutions tailored towards these challenges.

In essence, we need to take a step back and ask what retirement funds are really for. Retirement funding is necessary to maintain a standard of living within retirement. In order to ensure that this funding lasts throughout retirement, we need to encourage our clients to focus on their monthly income in retirement as opposed to their pot of cash that they receive on the day that they retire.

Establish boundaries

At the end of the day, people want to know that they are going to be ok during retirement. And if they are not going to be ok, what can they do now to change their outcome? I have met with a number of people over the years who have said to me if only they knew how dire the situation was, they would have done something about it.

And there is something we can do about it. We have the data already. It's now about communicating with members and clients in a way that is meaningful to them. This will tell people if they are on track for a good retirement or not.

We need to keep up with the times if we want our clients to retire with a peace of mind. Are we ready to make these changes?

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