Impact of retirement reforms on financial advisers

While South Africa's financial advisers would like government to reach its retirement reform objectives with as little regulatory intervention as possible, there were certain structural inefficiencies that could not be solved by product innovation and advice alone.

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This is according to Anton Gildenhuys, chief executive of Sanlam Personal Finance Actuarial. He was speaking at a panel discussion on the impact of retirement reform on advisers, held at the Independent Investment Intelligence Summit hosted by Sanlam Investments and Glacier by Sanlam in Johannesburg recently.

David Gluckman, head of Research and future positioning at Sanlam Employee Benefits, pointed out that while it was easy to blame financial advisers for poor retirement outcomes, the reality was that more than 71% of retirement fund members took their money in cash when exiting the pension fund. "The problem is not with the advisers, but with the current system that makes withdrawal the easiest thing to do," he said.

Primary concern

The regulator's primary concern is with the protection of consumers, improved access to financial services and the long term sustainability of the industry. "To achieve these objectives industry stakeholders must strive to build trust, be transparent and speak a language that consumers understand," said Caroline da Silva, deputy executive officer - FAIS at the Financial Services Board.

Da Silva highlighted both economic and structural factors that impacted on efficiencies in the retirement funding industry.

"National Treasury has had to balance high unemployment and low labour participation on the one hand, with the lack of preservation, voluntary participation and poor market conduct issues on the other," she said. On the market conduct front consumers have been struggling with complex products and the lack of transparency on commission and fees among other issues.

Treasury has thus far taken a slow and steady approach to the difficult task of restructuring South Africa's retirement savings environment to achieve better outcomes for consumers. Gluckman said that this slow incremental approach was evidenced by Treasury publishing seven papers over 18 months, which clearly signalled government's intentions and provided a sensible roadmap for industry to follow.

Tailor solutions

"Treasury has made it crystal clear where the problems lie and product suppliers know what to do to address their concerns," said Anne Cabot Alletzhauser, head of the Alexander Forbes Research Institute. "We should not be waiting for the reforms to be signed into law but rather begin tailoring our solutions to address these issues now."

While the panel agreed that industry could take certain steps to improve retirement outcomes, there are many areas that need further debate. "It makes sense to change the defaults that apply upon a member's exit from a scheme to preserve the accumulated capital," said Gluckman. "But implementing default annuity requirements upon retirement is unlikely to work."

Gildenhuys agreed: "Instead of herding retirees into an often inappropriate default annuity upon retirement, we should establish a safety net that is built around the financial adviser and the provision of valuable financial advice."