

Education and communication are key to understanding retirement default regulations

Following the introduction of the amendments to the Pension Funds Act in September 2017, the deadline to comply with the Act's default regulations is now effective.



Petri Greeff, RisCura head of investment advisory and administration

To recap, the regulations require that retirement funds establish a default option for members' retirement savings, one for preserving their funds if they change employers before they retire, and lastly a default that requires members to opt in to a living annuity once they retire. The regulations seek to improve retirement outcomes for members by ensuring that they receive good value from their savings and can retire comfortably.

"Ultimately, they want to provide a safe journey for members until the end. Too many members aren't retiring with enough money to be able to afford what they deserve in retirement," says Petri Greeff, head of investment advisory and administration at RisCura.

"They will force trustees of pension funds to take a Cradle-to-Grave approach, creating a safety net for members. But the process isn't without its challenges."

From the perspective of trustees, they've had to sift through many potential solutions from a myriad of providers. No doubt it's been challenging and time consuming to understand them because the various options for default annuities provided by many service providers are quite different. It is therefore important for trustees to find the right annuity for their membership base.

Opting in

For members, the default annuity strategy requirement is somewhat misleading. "While it may be called a 'default annuity strategy', you have to actually opt in to get the benefit," Greeff adds.

On the other hand, though default options are required, they may not always be appropriate for every member of a large fund, and the perception that a default option exists may lead members to think of it as the only option for them even though they need to make the choice to opt in. This could bring about the risk of being invested in the wrong way and thus not having sufficient retirement savings.

“While we are nudging the (retirement) industry in the right direction, unfortunately with members still needing to choose to be in a default strategy, this could lead to issues because of a general lack of member education.” Members of retirement funds tend not to pay attention to complex information that they do not understand, which could be a key contributor to not saving enough.

There are several ways that trustees could help members. From taking a long-term approach to constructing investment strategies, to avoiding offering too many choices, and above all, communicating simply to help members make better informed decisions.

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