RetireRight

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Sanlam Employee Benefits
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Defaults and a dummy's guide to product choice

by
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In the first discussion paper "Enabling a better income in retirement" from National Treasury on 21 September 2012 the following statement was made:

To ease the transition of most members at retirement, all retirement funds will be required to choose a single default retirement product for all their members, and to enroll members into this product

On 22 July 2015, National Treasury published the "Draft Default Regulations" which set out detailed requirements to consider in setting up default strategies.

These long-awaited Regulations require retirement funds to establish sensible defaults for the investment strategy of defined contribution benefits and for the conversion of the member benefit into a pension at retirement.

As the current system provides no protection for members at retirement, individuals have been left on their own to make one of the most important financial decisions of their lives. Too many people, retirement funds, and financial advisers have focused on building wealth before retirement, while paying little or no attention to what should happen at and during retirement. In fact, year on year we've seen 76% of trustees do not want further involvement with members after retirement at all. Worse, members often fall prey to unscrupulous advisers or make the wrong investment decisions.

All retirement funds should have an active responsibility to assist exiting members, many of whom are at their most vulnerable when they retire, with little or no financial advice provided. The draft regulations stipulate, therefore, that all defined contribution retirement funds, including retirement annuity funds, will be required to have a default annuity strategy in place.

There are several reasons why people may choose not to make a choice. They may feel they' ll make the wrong decision. They might simply not enjoy choosing. They might be too busy. They might lack sufficient information or could be overwhelmed by too much information.

Confusion around types of annuities

Our survey results reveal that those pensioners receiving an income from an annuity product do not seem to know the format of the annuity they have. This could be problematic as the risks involved with each annuity type differ – particularly between living annuities and guaranteed annuities (sometimes described as life annuities) as living annuities do not guarantee an income for the pensioner's lifetime.

Living annuities provide pensioners with an income from their retirement savings with flexible investment choice and withdrawal rates. In exchange for this flexibility, pensioners take on the risk that they outlive their savings and the risk of poor investment returns.

38% of pensioners said they were invested in a guaranteed escalation annuity, 23% had an inflation-linked annuity, and a further 14% said they were invested in a level annuity. All these annuities provide increases that are known upfront. Only 5% said they had a living annuity and similarly 5% said they had a with-profit annuity, where pension increases could be highly variable. It was therefore surprising to see that almost 40% of pensioners said that they did not know what pension increases to expect. From statistics released by ASISA, of the annuities sold in 2015, 90% were living annuities. It seems that many pensioners may be in living annuities without realising that they are! It is for this reason that funds are being called on to assist retiring members in converting their retirement capital to an income during retirement.

Research has shown that default rules have significant positive effects on outcomes and they tend to persist over time. The role of Trustees is therefore very important in setting up the appropriate default solution.

Default annuity options

The following options are allowed to form part of the default annuity strategy at retirement:

1. **In-fund options:**
   In-fund guaranteed pensions, in-fund living annuities, in-fund with-profits pensions
2. **Out-of-fund option:**
   Life annuities guaranteed by a life office.

Trustees will be allowed to mix different products as part of the strategy. Funds must give members access to retirement benefit counsellors on retirement to assist them with understanding the default annuity strategy. The default product options will not be compulsory and members will be allowed to opt out and buy an annuity of their own choice if they prefer.

Treasury's requirements for a fund's default annuity strategy are: good value for money, well communicated to members and transparent disclosure on all fees and charges. With only 16% of stand-alone funds and 27% of participating employers of umbrella funds having a default annuity in place, we unpack some of the requirements for a default annuity in more detail. Currently, living annuities are the most used form of annuity for the default (38% of stand-alone funds with a default annuity in place, and 26% of umbrella funds). With-profit annuities also feature strongly with stand-alone funds – 31% making use of them as a default.

Requirements for life annuities

The requirements for life annuities provided by a long-term insurer, chosen as part of the default annuity strategy are:

1. Annuity increases must be linked to a formula which is verifiable from publically available information, produced independently of the insurance company paying the annuity. For example, annuity payments can increase each year by published CPI or a % of CPI or they can increase linked to the change in the FTSE ALSI Total Return Index or the ALBI Total Return Index. Policies with discretionary increases will not be allowed.
2. Direct sales commission cannot be paid out of the member's account.
3 Trustees must be satisfied with the long-term financial strength of the insurer.

The regulation leaves fund boards broad discretion in determining the types of annuity policies that they allow, but does specify some conditions that these annuities must comply with. The regulations are currently still in draft format.

Types of (guaranteed) life annuities allowed

Currently the following annuities from life insurers will be allowed:

1. Guaranteed escalation annuity
2. Inflation-linked annuity (also referred to as a CPI annuity)
3. Index-linked annuity

In the Treasury's draft regulations, with-profit annuities are excluded from default annuities. From our 2016 BENCHMARK Survey, we saw that 21% of stand-alone funds and 27% of participating employers felt an inflation-linked annuity would be most appropriate for the "average" member in the fund. This is because an annuity income which keeps pace with inflation was believed to be the most important feature of a default annuity, with an income for life being considered the second most important feature.

Guaranteed escalation annuities

These annuities provide the annuity holder with a pension that increases at a fixed rate over the remainder of his or her life. The initial pension and future increases are guaranteed for life. These annuities will provide the highest initial pension, but pension payments will increase by a fixed percentage and may not necessarily keep up with the increase in the cost of living. This choice of annuity will solve the short-term need for more upfront cash to pensioners, but will result in an inadequate pension within the space of a few years. Pensioners do not carry any longevity risk, as initial pensions and increases are guaranteed for life.

Inflation-linked annuities (CPI annuity)

The inflation-linked annuity provides pensioners with a guaranteed monthly pension with annual increases equal to inflation. This increase will be equal to the Consumer Price Index (CPI), lagged by four months. Inflation-linked annuities address the need to protect the pensioner's purchasing power. Unless pensions keep up with inflation, the purchasing power of pensions decreases. By linking pension increases to increases in the CPI, a pensioner is able to maintain his/her cost of living. By selecting an inflation-linked annuity, pensioners do not carry any longevity or investment risk, as initial pensions and increases are guaranteed for life and pensioners are guaranteed to receive annual pension increases, linked to CPI inflation. Pensioners can choose to receive between 50% and 100% of CPI inflation increases.

Index-linked annuities

A big buzz in the retirement industry centers around the exclusion of the traditional with-profit annuity and the inclusion of annuities with verifiable increases linked to indexes.

What is a traditional with profit annuity?

A with-profit annuity provides a guaranteed income for life with some investment participation in the form of increases to the pensioner via annual bonus declarations. Bonuses are derived from returns in the underlying portfolio, typically a balanced fund, after deduction of (and allowing for) mortality, smoothing. the purchase rate and costs. Although the subjective decisions about the increases are made by experts (actuaries), the industry refers to these decisions as the "black box" decisions.

4 yrs

The approximate number of years women can expect to live longer, and therefore be in retirement longer, than men*

South African women and retirement

Living longer than men, but saving less

Sanlam Benchmark research highlights the need for women to focus on female-specific retirement issues in order to build and protect lifetime wealth

28%

The average amount women earn less than men**, often not considered when deciding what percentage of salary to save

*Stats SA 2014 mid-year population estimates

Performance update: Sanlam Lifestage Strategy

by
Danie van Zyl
Head: Guaranteed & Pooled Investments
Sanlam Employee Benefits

The Sanlam Lifestage Investment Strategy has been one of the big success stories for the Sanlam Umbrella Fund, popular with clients and consultants who bought into both the simplicity and value of the lifestage strategy. The majority of new members entering the umbrella fund will find themselves invested in the Lifestage Strategy throughout their working lifetime.

I have had the opportunity to meet some of the consultants and larger participating employers in the Sanlam Umbrella Fund since taking over ownership of our Lifestage Investment Strategy. What stood out from all these engagements have been the positive feedback on the exciting changes we are making to the Lifestage Accumulation Portfolio.

The Lifestage Accumulation Portfolio is an aggressive portfolio for members more than six years from retirement. The aim is to provide high long-term growth to grow younger member's retirement nest egg before they are switched to one of our Preservation portfolios closer to retirement. However, we felt that the performance of our Lifestage Accumulation Portfolio during 2015 could be improved upon. This was mainly due to our local active equity blend where a significant bias towards managers with a value style was allowed to build up towards the end of 2014. These managers performed poorly during 2015.

As the Sanlam Lifestage Strategy is a very important shop window for our umbrella fund, the ownership and responsibility for this solution was moved into Sanlam Employee Benefits at the start of 2016. We decided not to make any immediate changes to the manager line-up to allow the value style managers' performance to rebound during the first half of 2016. We also set about identifying areas in the Lifestage Accumulation Portfolio design that we believed could be improved upon.

We have identified the following areas which we have addressed.

Local equity blend (active portion)	With the help of our multi-manager a new equity blend was implemented during September 2016. The aim of the new blend is not to have unexpected out/under performance due to a bias to a specific style / sector. We want to see manager skill incrementally emerge over time.
Local equity blend (passive portion)	We have analysed the underperformance of passive managers vs. the SWIX over time. In order to reduce this underperformance on returns we have begun including derivatives in our passive equity component from the end of March 2017. Where derivatives are not used, we have allowed scrip lending on the underlying shares to provide additional income for the portfolio.
Local bonds	Similar to local equity, half our allocation to local bonds were originally managed on a passive basis. We have however agreed with our multi-manager to manage the entire allocation to local bonds on an active basis as we do not believe the passive management adds sufficient value to this asset class.
Offshore equity	A significant portion of our offshore equity exposure will from the end of May 2017 onwards be via a structure that guarantees outperformance over the MSCI World net of fees.

It is pleasing to see that the performance of the Lifestage Accumulation Portfolio has improved consistently over the last 12 months when compared to its benchmark.

Lifestage Accumulation Portfolio
Excess return over benchmark to 31 March 2017

This improved performance has also translated into more competitive returns versus our main competitors over the last 12 months:

Periods up to 31 March 2017	3 months	1 year
Sanlam Lifestage Accumulation	3.31%	3.49%
Sygnia Signature 70	2.81%	2.12%
Momentum Enhanced Factor 7	3.20%	3.15%
IS High Equity	3.05%	3.00%

Source: Data from manager's fact sheets

We strongly believe that it is important to be focused on the long term and to not be drawn into chasing short term performance or adjusting portfolios as a result of short term underperformance. The above changes are the result of careful analysis and deliberation. The net result is that we have methodically considered the various parts of our lifestage solution and have made improvements where we see it necessary.

Longevity and retirement … 60 is the new 40

by
Viresh Maharaj
Chief Marketing Actuary
Sanlam Employee Benefits

***Cape Town, 17 March 2014:* One of the most significant trends across the globe is the continuing increase in human longevity. On a macro level, this will impact the development of social and economic policies in both developed and developing nations. On a micro level, individuals now entering retirement face a very different picture to the one that they have been planning for throughout their working lives. As a responsible financial industry, we need to understand the changes taking place in order to structure a system that will enable retirees today and in the future to lead fuller and more dignified lives.**

Science has found that the blueprint of the human body is not intended to fail with age, but rather that it was not designed for long-term use. This means that aging and death are not hard-coded into our biology, suggesting that our health and lifespan are modifiable variables that can be influenced by behaviour changes, medical intervention and biomedical science. For instance, increases in longevity have resulted largely from advancements in medical technology and practice, better pharmaceuticals, healthier lifestyles and material declines in smoking.

For working South Africans, this means that the assumptions historically used to plan for retirement are no longer applicable, as we are living for far longer than our predecessors. As an illustration, some experts believe that individuals should now be making provision for a life in retirement stretching up to 40 years on average. Furthermore, research in game-changing medical fields such as molecular nanotechnology suggests that we cannot yet reliably estimate how much longer a current 20-year-old will live into the future.

The risk in our context is that South Africans will simply not have enough money by retirement to carry them through their longer golden years. This risk is exacerbated by the reality that many workers moving into retirement will need to support their children, given our high rate of youth unemployment, as well as their own parents, who will themselves live for longer.

There are a number of ways that we can start addressing longevity risks on structural and professional levels, including:

- Increasing the retirement age. This has been implemented in the UK and France, to some public outcry, in an attempt to manage the state's obligations in those countries.
- Introducing phased retirement. By restructuring the exit of employees from the workforce so they continue working past their normal retirement age in a stepped manner over time.
- Retirees taking on a second career to meet their living expenses. This may take the form of small businesses, part-time work or reskilling in a different field. This change presents an opportunity for financial advisers to play a greater role in equipping retirees to live better in retirement.
- Eliminating the compulsion to withdraw retirement savings at retirement. This will enable retirees who have an alternative income, say from a part-time job, to continue to benefit from the power of compound interest as well as the tax efficiency of these vehicles up until the point that they need to draw on these funds.
- Reconsidering the value of guaranteed annuities in the context of increased longevity risk, as this risk is borne by the insurer and not the retiree.
- Providing appropriate investment and draw-down advice on living annuities and other nest eggs in the context of significantly increased longevity.

As the financial services industry, we have a responsibility to our clients to lobby government to effect the legislative changes necessary to cope with this increase in longevity, design relevant products that address the needs of retirees in this context, and provide the most appropriate advice during the respective stages of their lives to improve the quality of their retirement.

Meet the team

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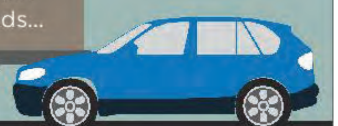
Your journey to healthy retirement savings

Treating your retirement savings with the love, respect and adoration you heap on your car could just be the secret to a financially prosperous later life. Here Sanlam Employee Benefits – using its 2016 BENCHMARK Survey findings – shows similarities between caring for your car and caring for your retirement funds...



Scenario 1
Make sure your retirement has a destination

Just as you wouldn't go on a road trip without a destination in mind, having a destination for your retirement savings is essential. Working with a financial adviser, you can define exactly where you are going with your savings and work together to get there.

FACT: 50% of standalone retirement funds and one in three umbrella funds haven't chosen a destination for their members' savings journeys.

Scenario 2
Keep your retirement savings well serviced

Just as it is vital to service your car every few thousand kilometres – it is also essential to 'service' your retirement savings every year. Meet your financial adviser annually to make sure you are contributing enough to your retirement to reach your goals.

FACT: Members are reducing contributions by average 20% to take home extra pay, to the detriment of their retirement savings.

Scenario 3
You can't retire on empty

Just as your car won't run without fuel, your retirement won't work without funds. Set up a retirement plan as soon as you start working (Day One) and don't stop contributing until you retire. This is the single best way to ensure you have enough to maintain your lifestyle in your golden years.

FACT: 48% of South African retirees have higher expenses than income each month.

Scenario 4
Keep driving toward retirement, reinvest your funds

Just as when you sell your old car, you use the funds as a deposit on a brand new car - when changing jobs, it's important to preserve your retirement savings. Cashing out and not investing in your future shouldn't be an option. To make sure you drive, not walk, to your golden years, reinvest your retirement monies.

FACT: 48% of those who admitted to withdrawing from their fund regretted doing so later on in life.

thought leadership / 2017 Sanlam Benchmark Survey

We're measuring everything these days – heart rate, shopping card points, how many steps we take. But we should also be measuring how well we're preparing for retirement, says **Karen Wentzel**, Head: Annuities at Sanlam Employee Benefits.

what's your (retirement) number?

We often don't know which measure is best to track our progress towards retirement, or even how to get there. In retirement planning, the two crucial questions are: What is the exact amount I need to retire? How much must I save every month or year to retire comfortably?

People are confused about these questions – but why? In the 2017 Sanlam Benchmark Survey, all funds said they have a stated target pension, expressed as a net replacement ratio (NRR) or projected pension ratio (PPR), towards which trustees actively work.

Calculating the ratio

If 40% of funds in the 2017 Benchmark Survey believe NRR is unsuitable for determining whether a member is on track for retirement, is it really an effective measure?

The funds are sceptical mainly because members don't understand NRR, and it's calculated using too many variables and assumptions. One of the biggest areas of concern is that most of the funds define pre-retirement salary as 'pensionable remuneration', or PEAR, which can be any percentage, usually less than 100%.

Given these reservations, it could be argued that NRR is not a suitable measure for determining whether an individual is on track for retirement.

So what should your number be?

An easy way for a member to understand the exact amount they should save, is to express their retirement savings as a multiple of their current salary at different points in their life.

What is NRR?
The net replacement ratio is the percentage of a member's pre-retirement income paid out by a pension plan on retirement, divided by their pre-retirement salary. This common measurement can be used to determine the effectiveness of a pension plan.

The question is: What multiple of their current salary should a member save, assuming a retirement age of 65 years, with these assumptions:

- Member saves 15% per year of annual salary, including annual bonus or 13th cheque
- Investment returns of 10% per year
- Salary increase of 6,5% per year
- For married couples, both members contribute towards retirement savings.

Based on these assumptions and with the target of having a multiple of 15 times your final salary saved at retirement, the table on the right sets out milestones along the road to retirement.

The magic number

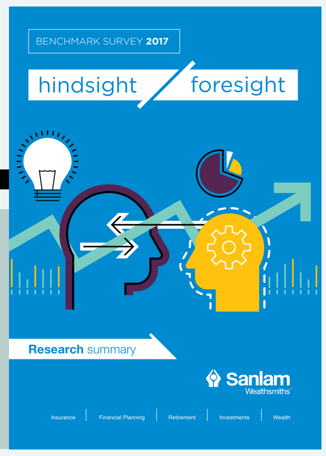
15

The goal of 15 is more than just a number. Currently, for every R1 million a 65-year-old retirement fund member saves, a man will receive a monthly pension of about R6 000 and a woman, who has a longer life expectancy, will receive about R5 400, increasing with inflation every year.

So to invest in an inflation-linked annuity at the age of 65, a member would need to have saved 15 times their final salary by age 65 to afford an annuity that will replace their salary.

What if you're a late starter?

For members who haven't yet started saving by age 25, saving 15% a year will be too little to achieve the multiple of 15 at retirement. They'll need to save much more per month, as the table on the right shows.



Since 1981, the Sanlam Benchmark research has helped stakeholders of SA's retirement funding system understand the topical issues of the era so they can make more informed decisions. The research has evolved as the retirement funding landscape has changed, shifting from defined benefits to defined contributions, from stand-alone funds to umbrella funds, and from the fund to the individual.

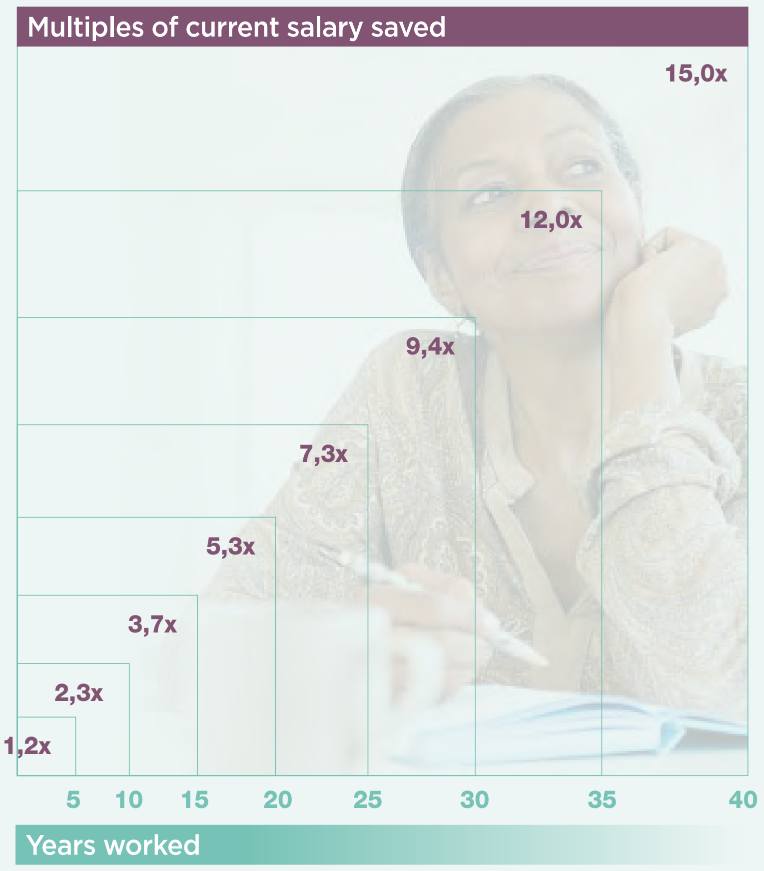
How old is old?

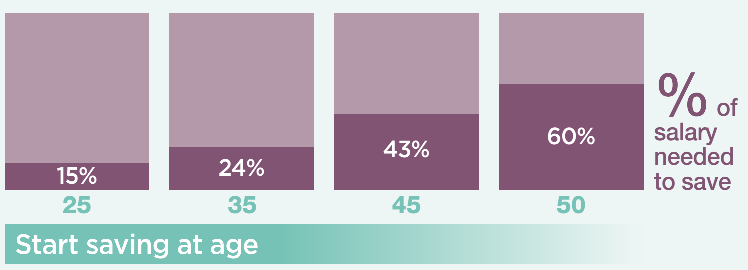
Cementing her status as one of fashion's most cherished innovators, Iris Apfel has now launched her own line of wearable tech.

The 95-year-old New York style icon revealed her new 'Wisewear' collection: a selection of jewellery that allows wearers to monitor their health and keep track of their physical activities.

'Most [wearables are] quite hideous, and I don't run around in sweatpants. If a technology is going to strive to save my life, then at least take the next step to make me look good while doing it,' she says.

wisewear.com





Images: Getty Images and supplied

In what products should you save for retirement?

Generation Z, or post-millennials, who may have no idea what a defined benefit regime or NRR is, and who want flexibility and choice, should consider a combination of products, giving them more options in choosing their investment as well as easy access. The idea is to supplement their retirement savings by:

saving in a traditional pension or provident fund

+ **retirement annuities**
+ **tax-free savings account**
+ **retail government bonds**
+ **ordinary unit trusts**

Other ways to boost retirement investment

1 **Never cash out your retirement savings when changing jobs.** Don't be tempted to access your money to pay off debt, buy consumables or upgrade your lifestyle. The long-term need for a higher monthly pension is far more valuable than short-term luxuries.

2 **Retirement savings are as important as a well-deserved holiday,** and not just a nice-to-have budget item.

3 **Invest wisely, tax-efficiently and know exactly what you're paying in fees.** Investing for retirement is a very long-term goal, so make sure you're sufficiently invested in aggressive assets to give you inflation-beating investment returns of at least 10% per annum after fees.

The great annuity debate – helping retirees make the right choice at retirement

by
Rhoderic Nel
Chief executive officer
Sanlam Employee Benefits

***Cape Town, 4 March 2014*: One of the biggest fears of retirement fund members when they retire – how to make the right choice of annuity at retirement – has now been addressed by the retirement reform papers published recently by the National Treasury.**

In the past, most advice provided to retirement fund members focused on building wealth ahead of retirement, while little focus was placed on what to do with a retirement lump sum after retirement. Members had to make their own decisions on the type of annuity to choose – either a guaranteed annuity, living annuity or 'with profits' annuity.

Retirement fund trustees will now be required to guide members through the retirement process and not leave them in a position where the wrong decision at retirement could effectively wipe out a portion of their capital or leave them with an income that does not meet their needs. Identifying and implementing a default annuity strategy for members at retirement should form a vital component of trustees' fiduciary duty. The question that now arises is: how can the financial industry assist trustees to offer appropriate products to members?

Pension security and control of pension increases are of utmost importance to pensioners. Investment-linked living annuities (ILLAs) have been very popular, but the impact of the flexibility in both choosing the underlying investment strategy and the drawdown (the level of income) rate on the long-term sustainability of ILLAs is only now starting to become apparent. Not everyone understands and can afford the risks associated with an investment-linked living annuity:

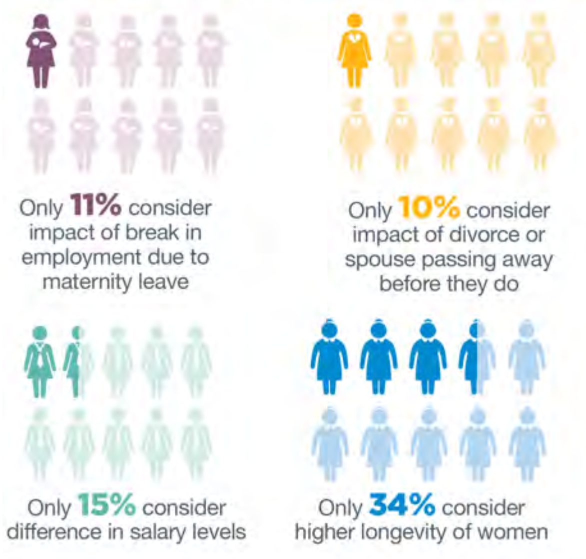
- volatile investment returns and therefore volatile income levels, or potentially decreasing income levels
- the risk of longevity – living longer can affect the sustainability of a liveable drawdown rate for life.

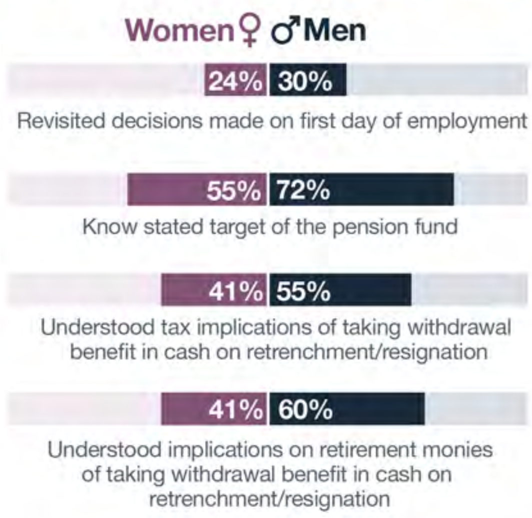
A living annuity is a financial product providing flexible income in exchange for a cash lump sum. The investor can draw a monthly pension for as long as there is money available in the fund. The most attractive features of living annuities are the flexibility in the drawdown rate and investment choice, together with the advantage that the remaining capital at death is paid to the investor's estate. However, the pensioner's dream of leaving a huge estate for children and grandchildren is often shattered by the reality of longevity.

Given that most South Africans have low levels of financial literacy, it is vital that retirement funds provide members access to a simple, efficiently priced product that helps them meet their monthly costs of living. Guaranteed annuities – in the form of inflation-linked annuities – address the need to protect pensioners' purchasing power. By linking pension increases to inflation, a pensioner is able to maintain his or her cost of living. Inflation-linked annuities also provide a fair match to rising medical scheme contributions. By selecting an inflation-linked annuity, pensioners do not carry any longevity or investment risks, as initial pensions and annual increases in inflation are guaranteed for life.

Even if inflation is negative, pensions will not decrease. Appropriate levels of protection can also be provided by means of a spouse's pension for life or guaranteed periods.

When selecting an appropriate annuity at retirement, pensioners have to weigh up the dream of providing a legacy and having a flexible, yet uncertain pension, against the certainty of a known pension which may well be slightly lower at inception but will maintain its purchasing power for life.





To avoid having to live longer on less, women should consult a qualified financial advisor.

How to align a lifestage strategy with annuity choice at retirement

Lifestage investment portfolios have increased in popularity among retirement funds over the past few years. They are delivering competitive results, and offer an excellent solution to fund member apathy with regards to investment choices. For a lifestage model to be successful, however, it is crucial that the investment strategy during the last few years before retirement is aligned with a member's final annuity choice, says Danie van Zyl, head of guaranteed investments at Sanlam Employee Benefits.

"The five years before retirement are when a member has built up the largest fund value. A carefully considered asset allocation strategy at this stage is imperative not only for the protection of value, but also for securing a required retirement income, and ensuring that the investment keeps pace with inflation," says Van Zyl.

The results of the 2015 Sanlam Benchmark Survey revealed that 61% of retirement funds surveyed indicated they were offering a lifestage portfolio – providing members with the opportunity to invest in a single strategy appropriate for the whole of their savings careers. The portfolio de-risks automatically as individual members grow closer to retirement.

The survey showed that only 54% of the funds with lifestage strategies align their end stage strategy with a member's annuity choice at retirement, however. Not even a third allow for more than one end stage depending on a member's selected annuity choice before retirement.

Van Zyl says asset allocation strategies can easily be tailored around the type of annuity a member has chosen. Most funds offer the following three default annuity options:

- **Inflation-linked annuity:** This provides pensioners with an income for life that is guaranteed to increase with inflation every year. The cost of the annuity decreases or increases as real interest rates move up and down. "The best way to protect members' ability to purchase the same level of inflation-guaranteed income at retirement would be to invest in a portfolio in the end stage that aims to track the cost of an inflation-linked annuity. These types of portfolios invest mainly in inflation-linked bonds," says Van Zyl.
- **With-profit annuity:** A with-profit annuity provides pensioners with a guaranteed income for life, with increases declared annually by an insurance company. Increases depend on the portfolio's underlying investment return, how long pensioners are living and the insurer's smoothing philosophy.

  The cost of a traditional with-profit annuity is not as sensitive to changes in interest rates as an inflation-linked annuity. This reduces the need for members to invest in inflation-linked bonds close to retirement. However, many members are still hesitant to invest in a high equity portfolio due to the volatility of equity returns and the risk of seeing their capital reduce before retirement. "Members can enjoy meaningful equity exposure without the risk of seeing negative returns by investment in a smoothed bonus portfolio," says Van Zyl.
- **Living annuity:** A living annuity gives pensioners great flexibility in how to invest their retirement savings and on how much of these savings they want to withdraw annually in the form of a pension. However, these annuities do not provide members with a guaranteed income for life, while poor investment returns can lead to a lower income later in life. Van Zyl says given the flexibility and range of choice that members have in these living annuities, they often try to align their investment choice pre-retirement with their investment after retirement by investing in the same portfolio for both.

Smoothed bonus portfolios tops for capital protection as well as growth

Instead of focusing on a cash strategy during the last few years before retirement, capital protection can be better achieved by investing in a smoothed bonus portfolio. This could also ensure the real returns necessary for asset growth during this important phase, says Van Zyl.

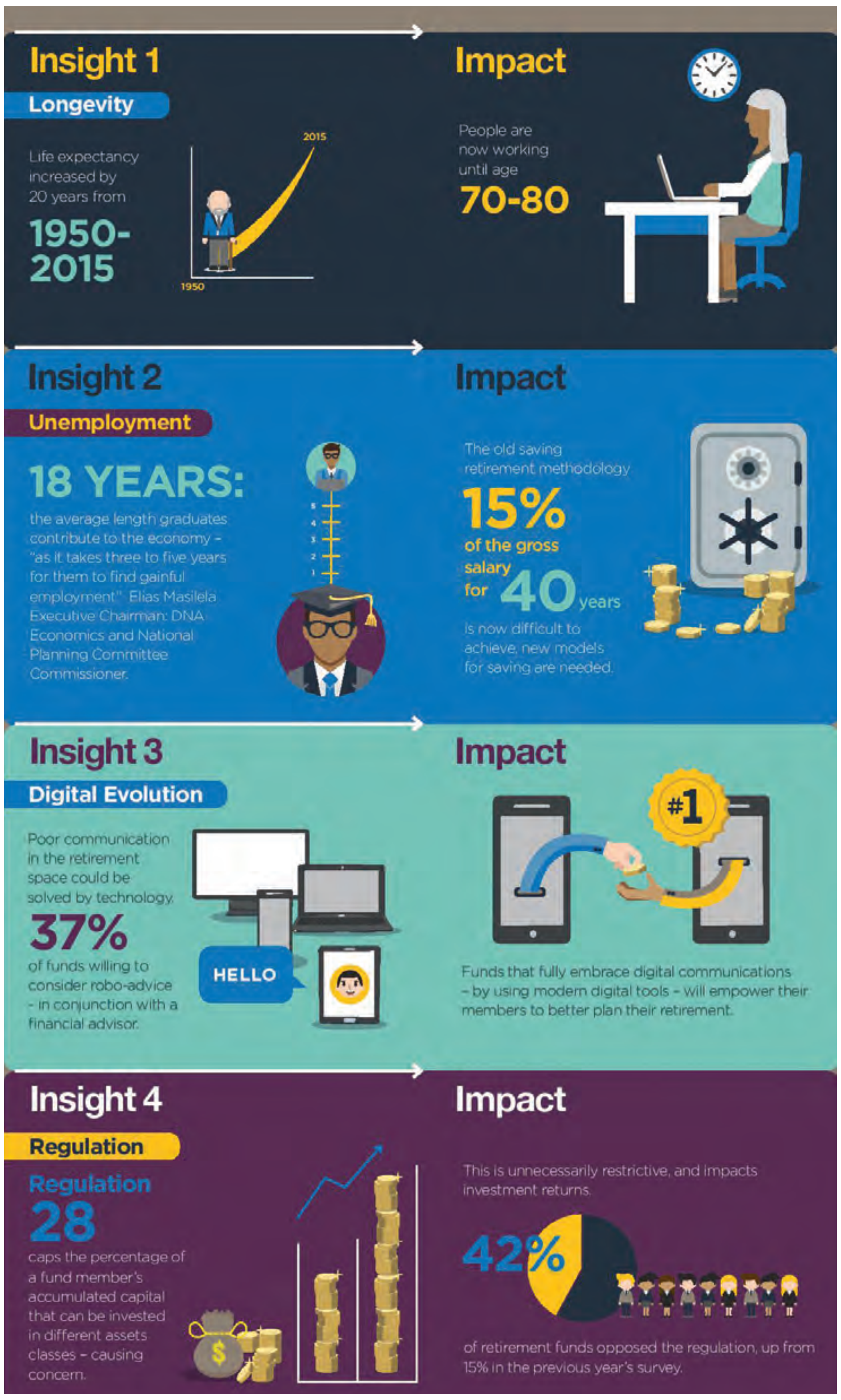
A smoothed bonus portfolio smoothes out the 'bumps' in investment returns and provides stable, non-negative bonuses to members. It also provides valuable guarantees on benefit payments.

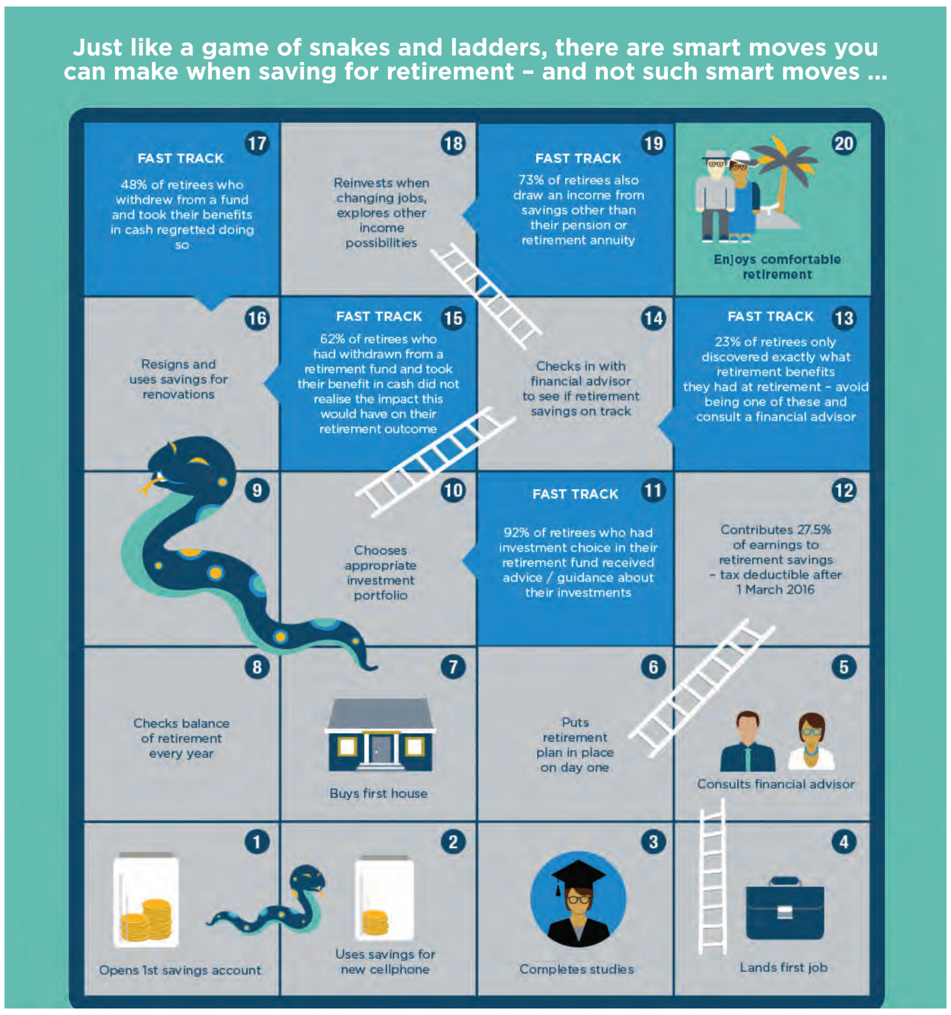
"In an attempt to preserve capital, members may end up investing too conservatively during this phase. Cash may well provide returns that have the lowest volatility, but these barely keep pace with inflation. On the other hand, members retiring at the end of December 2014 would have benefited handsomely by being invested mainly in South African equities."

Van Zyl says the benefits of smoothing include providing stable investment returns while reducing retirement fund members' exposure to short-term market volatility, and lessening the risk of investing in or disinvesting from the market at the wrong time.

"For example, the Sanlam Stable Bonus Portfolio has provided high inflation-beating returns over the last five years, coupled with relatively low volatility. It addresses the key needs members have before retirement – real returns as well as capital protection."

Four insights shaking up retirement






the nine-to-fiver
the decider