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For immediate release

NMG Benefits welcomes National Treasury's Retirement Reform proposals

Lowering charges and improving market conduct

The National Treasury recently released a statement outlining the first step towards implementing proposals that aim to lower charges and improve market conduct in the retirement fund industry.

These proposals form part of the broader retirement and savings reforms initiated in 2011, outlined in the document *2014 Budget update on retirement reforms* that was released on 14 March 2014. The improvements in market conduct for the retirement industry are also in line with the Treating Customers Fairly initiative and link to the Retail Distribution Review currently underway, led by the Financial Services Board.

Andrew Warren, CEO of NMG Benefits says: "The pressure is now firmly on industry to improve on our delivery. The retirement fund solutions offered by employers to their employees must provide the necessary retirement benefits. The system needs to promote retaining accumulated savings to meet the need at retirement; the proposed regulation aims to address just that.

"The second big issue is the total cost of delivery. This needs to be lowered in order to boost investment returns for individuals. The fact is that the total delivery cost in the financial services industry is too high and this affects the ability of individuals wanting to retire comfortably."

Warren emphasised that the insurance industry needs to make it easier and more efficient for people to retire with sufficient retirement savings.

When pressed on what 'easier' means Warren explained, that people do not engage with what the National Treasury called a '*system characterised by complex and opaque products*'. "People simply do not take the necessary interest in their retirement savings." The complexity makes it very difficult for consumers and employers to make choices in a way that leads to best outcomes for members of retirement funds.

Warren goes on to explain that if industry hopes to succeed in putting people first, advisors and products will need to take into consideration the various and disparate touchpoints required for individuals to successfully plan for their retirement. In his opinion, as supported by the draft regulations, well-structured default choices are a key drivers in incentivising the correct savings behaviour by individuals.

These defaults will eliminate some of the manual interventions in ongoing administration and in preservation of savings when members move between employers. Education underpins everything else, and in this aspect human resources practitioners and financial advisors must enter into a more effective partnership in order to educate employees through one-on-one sessions and/or induction workshops, to name but a few. From a product design point of view, choice can be a double-edged sword. There is already a great deal of choice – but that choice, according to Warren "is often poorly designed and communicated; and the ramifications are potentially dangerous. People are sold on the notion that investments must be complicated in order to reap the most rewards. However, this is simply not true. The focus by National Treasury on passive investments in a default investment strategy is to be welcomed."

A default strategy can be viewed as a sort of automated option for investment where the member is required to do very little, but choose the default. Combining both default and passive investment strategies results in a cost-effective retirement savings vehicle, which means good investment returns.

"Based on research done by Sygnia Asset Management, NMG Benefits' investment partner, there are numerous cost advantages to investing in passively managed portfolios, including more transparency and fewer layers of costs, thereby reducing 'administrative platform' fees, and the ability to use unit trusts within savings products. This is exactly what we believe National Treasury will require," says Warren.

From the outset, the NMG SmartFund retirement fund solution was designed as a member-centric multi-employer fund which is clear to understand and provides options for both individuals and employers, including a default investment strategy. "However, making defaults available is only the first step. More importantly, the onus is on industry to explicitly explain the significance to members by engaging a combination of stakeholders such as Human Resources, Retirement Fund Consultants and Financial Advisors."

"We believe that making defaults mandatory is an important step in securing better retirement outcomes and our NMG SmartFund offerings align perfectly with the National Treasury proposals. We welcome these proposals and have already started 'future proofing' our products such as the NMG SmartFund," concludes Warren.

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