



**What do individuals think about compulsory preservation funding?**

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## **ABSTRACT**

What are the thoughts of individuals regarding the proposed retirement fund reform? Has rising levels of debt in South African households begun to eat into our future retirement savings? This paper walks through South Africa's retirement fund history, taking us to the present day's retirement fund reform proposals, notably compulsory preservation funding, before describing the low savings and high debt environment which also provides challenges for policy makers.

The high cost of not preserving retirement benefits is shown and contrasted to retirement fund costs. Stakeholders are considered before the description of individual attitudes, views and opinions takes place. Finally the association between the presence of debt and past actions and future desires relating to the use of retirement fund monies when changing jobs is shown.

## **DECLARATION**

I declare that this research project is my own work.

It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration the Gordon Institute of Business Science, University of Pretoria.

It has not been submitted before for any degree or examination in any other university.

I further declare that I have obtained the necessary authorisation and consent to carry out this research.

## ***Acknowledgements***

Thank you:

To my mother, Sandra

My late father, Dean

My girlfriend, Michelle

My new gift on it way 😊

My family,

My current and late friends,

My supervisor, Johan

My mentor, Russell

Sincerely,

Clinton

*I am because you are*

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# 1 Introduction to the research problem

## 1.1 Background

### 1.1.1 Retirement Funds

In South Africa and most of the developing world, defined contribution funds have gained popularity at the expense of defined benefit funds since the 80's. Union pressure and environmental shocks added to the rapid rise in popularity of defined contribution funds. Coupled with this, the employment landscape began changing. Working an entire lifetime at one employer as in the defined benefit era, was fast becoming a thing of the past. Greater portability of retirement benefits was a necessary consequence.

A defined Benefit agreement is one wherein a benefit is 'promised' to the employee. The benefit would have been equal to Final Average Salary x Years of Service x a given percentage%. The given percentage would have been in the region of 1 to 2%. This promise by the employer to the employee meant that the employer bore the investment risk and would have to fund shortfalls as a result of poor investment returns. Essentially the employer carried an open ended liability on the balance sheet to provide for pension fund shortfalls. Predictably employers were keen, as evidenced by the pace of conversions to make the change to Defined Contribution Funds.

Defined Contribution funds are funds wherein the member receives a return of his or her contributions, the employer's contributions and the interest earned thereon subject to tax and expenses. This meant that the employee carries the investment risk. While Defined Contribution fund balances are easy to understand in contrast to the actuarially valuated defined benefit funds, whether or not the employee was on course to meet retirement targets, if any, was blurred.

The volatility of stock markets as in the Asian stock market crisis, the dot com burst, the housing bubble burst and euro zone crisis translated into poor returns earned on retirement funds. Increasingly funds offered members individual member investment choice which was to be a further shift in passing investment responsibility on to the member. Nevertheless, in this instance members either surrendered their investment strategies to trustees who offered default investment options. Or they would all too often select conservative investment

vehicles. Most fund members are to a large degree inadequately prepared to deal with the investment responsibilities, primarily through a lack of investment education.

In addition to the lack of investment expertise members became entitled to cash withdrawal on the event of bona fide termination of employment. According to the Sanlam survey close to 70% of members withdraw their benefits in cash. It is the upper echelon of earners who more often than not preserve their monies. With workers changing jobs more frequently than in the past, it follows that the majority of individuals are having to start saving for their retirement from scratch every time they change jobs.

The effect that these withdrawals have on retirement funds savings is drastic and requires appropriate interventionism.

Retirement Fund Reform has been touted since the National Treasury of South Africa published its Retirement Fund Reform Discussion document in 2004. One of the key proposals was the desire to compel members to preserve their accrued retirement fund monies when changing employment. The argument against this has been raised by labour organisations (Labour Constituency Retirement Funds Conference, 2011) wherein they state that “proposals for mandatory preservation of retirement funds can’t be implemented in a situation where there is no income support for the majority of unemployed workers”. They further go on to state that “we therefore wanted to assure workers that nothing will happen without their consent”. This highlights the tug of war between government’s desire for mandatory savings of preservation funds to improve future retirement values and labour’s (representing fund members) desire to look after members in the present.

#### 1.1.1.1 ***The retirement fund industry***

The pension fund industry in South Africa has assets of approximately R720 billion (Davies, 2009). Of this, only R29 billion, approximately 4% of funds invested, are in preservation funds.

According to surveys in the retirement fund industry (Sanlam Umbrella Fund Survey, 2011), 74% of participating employers felt that members withdrew their funds in cash. This correlates to the findings of the member survey (Sanlam Member Survey, 2011) wherein 70% of members withdrew their



benefits in cash, while a further 9% of respondents said that they took part of their benefit in cash.

The Retirement Fund Reform Discussion paper demonstrates the effects of longer savings period in the attainment of higher salary replacement ratios at retirement.

Years of contribution before retirement	2% real return	3% real return	4% real return
10	8.2%	8.6%	9.0%
15	13.0%	13.9%	15.0%
20	18.1%	20.0%	22.1%
25	23.8%	26.9%	30.6%
30	30.0%	34.9%	40.8%
35	36.8%	44.1%	53.0%
40	44.3%	54.5%	67.7%
45	52.5%	66.6%	85.3%

The above table clearly highlights the benefits of:  
 (a) contributing for a long time towards retirement and;  
 (b) staying invested,  
 in other words, severe leakages from retirement savings make it extremely difficult to obtain a high replacement ratio upon retirement.

Thus based on the trends reflected in the Sanlam Survey and the impacts of withdrawals on replacement salary rates, a need exists to help and encourage South Africans to improve their savings behaviour within preservation funds.

#### 1.1.1.2 **Preservation Fund Access**

Presently fund members are allowed to access their retirement fund savings on a bona fide termination of employment. The intention of this has been to allow a member to choose where to transfer his or her monies to on leaving his or her employer. Consensus is that if a member is without employment, then he or she should be able to withdraw preservation funds (on leaving employment). However, we find that staff turnover rates are high. The HSRC Review, 2010, shows a turnover rate of employment of 12% to 14% over the past 10 years.

This indicates that the average South African changes jobs every 7 to 8 years. While loss of employment raises the need to access accumulated savings, the writer argues that changing jobs through resignation does not. Therefore, accessing preservation fund benefits on changing jobs should be disallowed.

### 1.1.1.3 **Preservation Fund Options**

Respondents in the Sanlam Member Survey (2011) who withdrew their funds in cash claimed to have spent the cash as follows:



Financial planners would encourage one to pay off their debts before saving as the interest commitments on debt may be seen as a form of guaranteed investment return. This may appear to be reasonable, however, when utilising preservation fund monies, tax is incurred. Should, if debt is repaid, allowance be provided for remedial action to be taken in trying to “buy back” utilised preservation benefits and forgone tax?

Further, the preservation fund industry is in its infancy with only 4% of retirement fund savings. This industry has the ability to grow considerably. Thus with the corresponding growth improved preservation fund administration services and offerings would be appropriate. These services may include making preservation fund salaries, disbursing payments in a controlled manner, making loans available facilitating the repayments thereof.

Thus, based on the large proportion of people withdrawing their funds in cash, the large numbers of persons paying off debt related items and relatively small preservation fund industry, opportunities exists to enhance preservation fund administration services, allow members greater options when withdrawing pension fund monies and to incentivise them subsequently through buying back tax.

#### 1.1.1.4 **Financial Literacy**

##### 1.1.1.4.1 **Awareness**

Retirement planning is complex if done right. In the defined contribution environment that exists members have to choose how much to save and where to save. Greater support and information must be made available to members in order to enhance awareness of the need to save, especially for retirement.

##### 1.1.1.4.2 **Impacts**

When a member withdraws his or her preservation fund money, what will be the impact thereof on projected future retirement fund values? These are questions that would serve to show the negative aspects of pension fund withdrawals prior to retirement and assist members in making reasonable decisions with regards to whether or not preserve their retirement funds.

##### 1.1.1.4.3 **Remedies**

Members must be provided with options and be shown how to remedy situations where they have withdrawn their preservation funds to assist with present day hardships.

#### 1.1.2 **Savings in South Africa**

Savings in South Africa is low compared to other developing countries. Saving is needed in times of economic downturns and strenuous circumstances. Not having a savings buffer can be detrimental to an affected person. With low levels of income and wide income inequality, those at the bottom of the pyramid struggle to save. In South Africa savings rates have been declining while household debt to income levels have been increasing.

South Africa has a strong aspirational culture coupled with a sense of injustice stemming from our past history. In addition we may describe South Africa as having a consumerism attitude. A sophisticated financial sector makes it easy for people to gain access to credit. In recent times much awareness has centred around increasing levels of unsecured lending, i.e. lending that is not backed by assets.

With savings being inversely related to consumption, then in the context of retirement fund reform, the question is raised as to how would the proposals gain acceptance. Is there a case to be made for Treasury and the NCR to

implement policies simultaneously in order for the aspirations of improved social benefits for all to become a reality?

## **1.2 Need for the Research**

The study bridges the current gap that exists between members who have present day financial needs and policy makers who wish to encourage members to save for their retirement. It will attempt to aid in improving the design of preservation funds and it's allowable offering in terms of access for present day needs. Further member education will be enhanced so that they will understand their needs at retirement and also be able to see the impact of their present action on projected future values.

When members terminate employment they are allowed to access to their retirement fund values either by way of a transfer to a preservation fund or a cash or part cash withdrawal. It is preferable that members preserve their built up retirement fund values. However surveys conducted show that in the region of 70% of people withdraw their monies in cash thus eroding their retirement fund values that would accrue over time. Further, we could argue that present day needs are greater than a future day need that may or may not arise. That said, members change jobs more frequently than in the past. As a result they have more occasions to access their retirement fund monies. While a member who is retrenched could argue that they need their built up monies because they would be without an income, could members who resign argue the same?

Preserving an individual's benefits are encouraged by government as it eases the burden on the state to look after the countries citizens in retirement. While we accept that forced preservation of accrued retirement values would be the best option for individuals when considering their retirement, it does not address the problem of members accessing their built up capital in times of need in the present. Thus should access to preservation funds be delinked from termination of employment that was not voluntary?

Further the research will attempt to describe the views and opinions of individuals on retirement funds, notably preservation funds. The research will use these views to establish the that debt affects an individual's actions and desire to preserve their retirement fund monies, thus allowing for more robust policies to be created that addresses both savings and debt simultaneously.

### **1.3 Research Objectives**

The objective of this research is to demonstrate to policy makers and the role players in the financial services industry that individuals are willing to save for the long term through preserving their retirement fund monies when it becomes due as a result of termination of employment. However, the actions of individuals contradict their ambitions. Their ability to save is constrained by the pressures they face in the presence of high debt to income levels that exist in South Africa. Therefore, by attempting to demonstrate that this link indeed exists, the implication is that retirement fund reform can take on a robust and integrative approach in order to achieve higher levels of retirement fund saving within the country.

### **1.4 Research Scope**

The scope of the research revolves around retirement fund reform with emphasis placed on compulsory preservation funding. This is contrasted with the savings culture in South Africa and rising debt levels. The research will be quantitative and will not go into the broader aspects of retirement fund reform and the theoretical underpinning of savings. Rather it will attempt to build on relevant recent academic qualitative literature on the subject.

The research will try to describe how individuals feel about retirement fund reform and will ask pertinent questions related to views, attitudes and opinions on retirement funding in general, before delving into what preservation funds are being used for, and trying to ascertain whether or not debt plays a role in decisions made by the individual.

## **2 Literature Review**

Du Plessis (2008, 113), concluded that “household savings behaviour in South Africa was South Africa was a complex and dynamic field of study”, and goes on to say that the field requires dialogue for the “formulation of proposals in respect of South Africa’s developing economy” within this context. Later, Cronje (2009, 110) asserted that South Africans should embrace a move towards finding equilibrium between savings and consumption. In addition, individuals need to appreciate the resultant benefits that would arise from proposed retirement fund reform initiatives.

The subsections herein will describe savings, consumption and retirement reform in this context.

### **2.1 Retirement Funds**

#### **2.1.1 A brief history of retirement funds**

Downie (2003, 3) describes how prior to the Industrial Revolution in the 18<sup>th</sup> and 19<sup>th</sup> centuries it was accepted employers had a moral obligation towards their employees when those employee were unable to work in their old age. Businesses were small and employees usually had lifelong employment which resulted in the close bond between employer and employee. With the advent of the industrial revolution though, the nature of society began to change. Productivity and efficiency became priority and thus employers no longer wanted the burden of looking after non-productive employees.

Hanekom (2012, 3) mentions how the first type of pension plans began to form wherein a new employee would contributed a portion of his or her salary to the outgoing employee as a form of retirement benefit for the rest of the outgoing’s life. This worked well for those earning a good salary and who could thus afford the salary sacrifice. However, when the same practice was rolled out to lower income earning employees, difficulty in premium collections began to arise. We could deduce that resistance to the salary sacrifice also arose.

Downie (2003, 3) goes on to say that employers began to recognise that a scheme needed to be devised that would allow for the pre funding of the anticipated retirement benefits. Government also began too incentivise employees to also contribute towards retirement funds through the provision of tax concessions.

## **2.1.2 Retirement Funds in South Africa**

### **2.1.2.1 *First Pension Funds Act in 1965***

Hanekom (2012, 3) tells us that South Africa may have been one of the first countries in the world to formalise pension fund legislation through the Pension Funds Act of 1956. Prior to this, funds were operated on the basis trust and/or common law. The government had thus realised that it need to supervise retirement funds so that members who had contributed to the retirement fund would be assured of receiving their benefits at retirement. This indicates how South Africa has always been a pioneer in the field of retirement funds.

### **2.1.2.2 *Defined Benefit (DB) to Defined Contribution (DC)***

Downie (2003) offers an explanation of DB an DC funds. DB funds offered a promised benefit based on a percentage (accrual factor) of final salary for each year of service, while DC funds had a defined contribution rate. The difference between the two was that one carried a promised benefit (DB) at retirement, while with the other (DC) only the employer contribution rate was known. The implications of the difference are significant however. DB funds carried an employer investment risk and DC funds a member investment risk. If an employer experienced an investment shortfall, he was liable to make good the benefit promise. On a DC scheme, any negative investment returns was not supported by any option to make good the underperformance of return.

Andrews (2004) described the history of the conversion from Defined Benefit to Defined Contribution funds. Prior to 1980 South Africa has a means test social age pension which provided retirement fund benefits for people over 65 and under a certain income. This worked for low income earners, notably those in agriculture and domestic services, but for employees in commerce and industry an alternative was required. Thus tax incentives were provided by government to encourage participation in occupational retirement funds which had coverage of up to 80% of workers.

Trade unions began forming in the 1970's following the Wiehann commission. Concurrently, DB funds offered withdrawal benefits if a member terminated

membership with a fund prior to retirement. Unions noted that withdrawal benefits were low, as only the member contributions were returned with modest interest, i.e. the employer's portion was not.

George (2007, 5) notes how DB fund structures fuelled tensions between the employer and employees. In the 1980's, and in the context of South Africa at the time, control of retirement funds became an element "of a broader liberation struggle".

Andrews (2004) goes on to say that in 1980 a draft bill on pension preservation was released which attempted to stop leakage in retirement funds with the intention of improving future retirement benefits. This created unrest as workers wanted their benefits paid out before compulsory preservation funding could be enforced. Union funds began forming in response. As alternatives to the traditional employer sponsored occupational funds.

Kerrigan (1991), cited by Andrews (2004), listed union concerns at the time:

- Workers' priorities lay with housing, education and funeral benefits, none of which were catered for in existing DB schemes.
- Lump-sum benefits were preferred over income benefits because of a lack of confidence that an ongoing income would be received in rural areas after retirement. [Such lump sums could be invested on retirement in such a way that the means test could be avoided, which was not the case for pension benefits. Some commentators have guessed that this was one of the reasons for a preference for lump sums.]
- Most employees at unskilled levels expected to resign or to be retrenched rather than to retire, and wanted good early-leaver benefits. Most existing DB schemes favoured retirement benefits rather than resignation benefits: few gave any portion of the employers' contributions on exit and the rate of interest paid was significantly less than commercially competitive rates. Members were aware that many schemes had made substantial profits on the withdrawal from service of low-income employees.
- Low-income employees believed that they had a higher mortality than higher-income employees and therefore that they would subsidise the pensions of higher-income employees.
- There was little understanding amongst members of DB schemes, whereas the alternative DC provident funds were simple, easily understood and easily communicated to all levels of member.
- Members had no share in the management of schemes. Workers distrusted the paternalistic attitude of employers who were perceived to dominate existing schemes.
- This process gave a strong black trade-union movement, which had emerged after the changes in legislation brought about by the Wiehahn Commission, an issue that was important to workers and could be used to consolidate existing union membership and recruit new members.



Eventually, schemes began transferring from DB to DC funds which were considered to be easier to understand and fair (member and employer contributions were paid out on withdrawal). Andrews (2004) mentions how political uncertainty affected the employer's outlook on favourable investment returns. Thus, as in a DB fund, the employer carried the investment risk, they welcomed the opportunity to convert to DC funds as the liabilities inherent in making good benefits promises were now transferred to the member.

George (2007, 6) adds that DB funds were established by employers to reward employee loyalty and did were not equipped for the reality of job mobility.

### 2.1.2.3 **Retirement Fund Reform**

Nevondwe (2010) describes the retirement fund reform journey as having its origins in the 2002 Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa; the 2004 National Treasury Discussion Paper on Retirement Reform; 4 and research undertaken on behalf of the Forum of South African Directors General Social Sector Cluster task team on comprehensive social security. He then cites the long awaited 2007 discussion paper released by National Treasury titled "Social Security and Retirement Reform" which signified a broader shift from retirement to more encompassing social development. He highlights two major principal objectives of the reform: "to ensure a basic standard of living and to prevent destitution in old age or in circumstances of unemployment or incapacity partly or wholly through redistributive measures, and to encourage savings to provide for the replacement of income on retirement, disablement or death through long-term insurance arrangements". Thereafter he highlights some of the challenges that may be faced:

- *"the South African labour market that is characterised by high levels of unemployment, protracted periods between employment and irregular incomes";*
- *"the high number of deaths before retirement, largely as a result of HIV-AIDS, is contrasted against a rising longevity among retirees;"*
- *"the high number of deaths before retirement means that income for young dependants is a critical concern;"*

- *“the existence of an effective skill set as well as retirement and risk benefit administration and delivery infrastructure in the private sector, which is not matched in the public sector;”*
- *“affordability for individuals, employers and government currently and on a sustainable basis;”*
- *“the challenge in introducing a savings culture into an environment where current personal savings levels are negative;”*
- *“the task of balancing tax incentives on savings with the costs of administering a compulsory system;”*
- *“determining an optimum balance between ‘Pay as you go’ -type savings and a fully funded benefit model. In considering the current voluntary retirement savings framework, two key observations can be made: there is a relatively high level of coverage among the employed and self-employed; other than those who exit funds early and do not preserve their benefits, members generally enjoy a real return on investment.”*

Gluckman (2009) discusses the costs associated with the transition of the proposed reform and provides his law:

*“Net Utility arising from Retirement Fund Reform = Gross Utility arising from Retirement Fund Reform – Cost of Transition”*

Essentially he says that Utility derived will be reduced by the cost of transition which is estimates to be between R40 billion to R60 billion.

Gluckman (2010) also highlights the journey of retirement fund reform and how the “road map forward seemed to have escaped us”. He cites McCarthy (2008) who questioned forcing people to save for retirement in light of present day realities such as finding jobs, purchasing homes and giving their children an education. Gluckman goes on to say that “non-traditional savings policies such as investment in education might well yield greater dividends over the long term” in contrast to the micro-level retirement reforms in the current context of the size of the economy and the high levels of unemployment.

Herbert (2012) describes how the investment management industry has become stagnant in contributing towards the retirement reform proposals as the inaction ever since the 2004 proposals have led to ‘fatigue’ and that

they feel that they have nothing new to add. She goes on to support the lack of inaction to have been because of the “sheer complexity of the topic”. She notes that pension fund reform is a heavily debated topic worldwide and further sites (Barr and Diamond, 2008) who describe some of the problems as being increasing life expectancies, earlier retirement and ageing populations. Gluckman (2010) sites Taleb (2007) who describes an inability to forecast in the short term in contrast to the thirty year projections of social security deficits, as well the huge losses that have arisen from political and economic event. Taleb also states “what is surprising is not the magnitude of our forecast errors, but our absence of awareness of it”.

The retirement fund reform has been long and drawn out. From the work undertaken by previous researchers, the significant complexities, and costs are noted. While the intentions of the reforms are noble, the present day realities and potential for public denunciation and forecast errors causing unintended consequences are ubiquitous.

### **2.1.3 Retirement Fund Leakage**

#### **2.1.3.1 *Job Mobility***

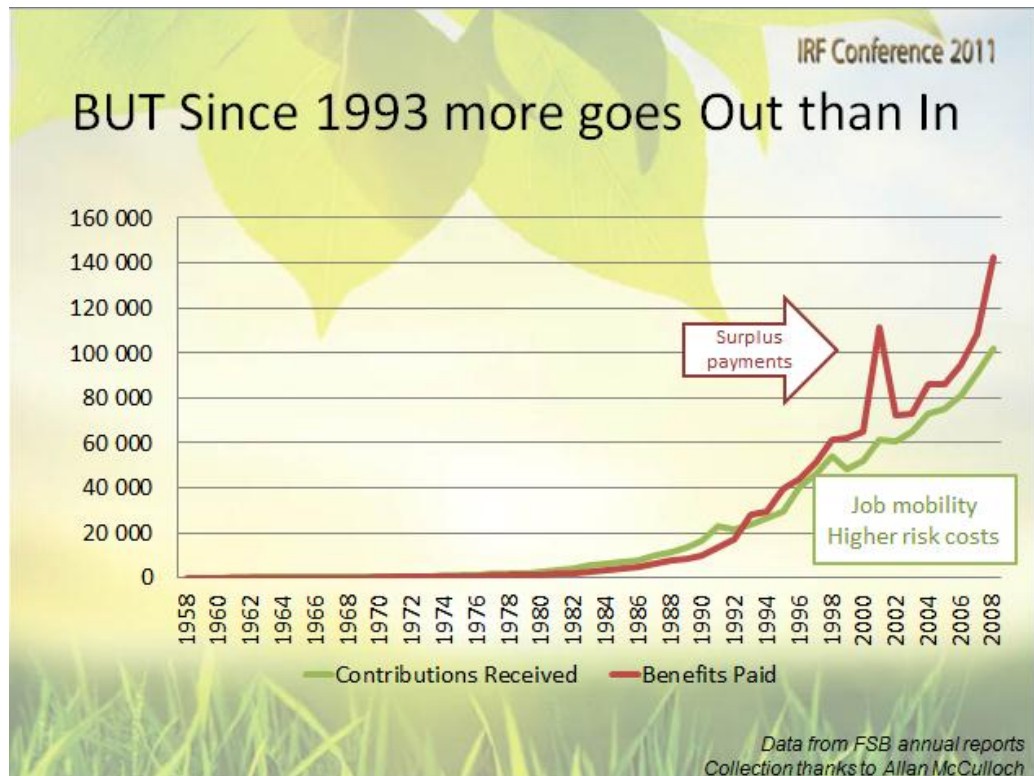
Samuel and Chipunza (2009) state that “Empirical studies such as Stovel and Bontis (2002) have shown that employees, on average switch employers every six years.”

The HSRC (2010) states that “Limited evidence suggests that the average turnover rate for all types of employees ranged from 12–14% in the past decade”

Marx (2012, 296) describes minimum benefits as prescribed under the Pension Funds Act, 1956 which indicates that a member who stops being a member of a fund, will be entitled to a minimum benefit consisting of member contributions, employer contributions and investment returns less expenses.

This implies that any member who terminates employment prior to retirement will be entitled to his or her accrued benefit in the fund. Together with the increased job mobility indicated, this creates more frequent opportunities for an employee to access his or her withdrawal benefits.

Burger (2011) showed the following graph in his presentation indicating that more withdrawals are leaving funds than contributions are entering funds:



We see that job mobility has increased relative to the traditional scenario where an employee would work for a single employer during the course of his or her career. This coupled with an environment that allows for an individual to cash his or her withdrawal benefit has proven to be a catalyst for the high levels of attention being given to compulsory preservation funds.

#### 2.1.3.2 **To preserve or not to preserve?**

Pratt (2010) states that there are many reasons individuals may choose to use their retirement savings prior to retirement, and some of these choices may involve a rational trade-off between immediate financial emergencies and future retirement needs. Further he concludes that small amounts of withdrawal can have a significant impact on the retirement savings values.

The US Department of Labour's (DOL) (1998) report of Retirement Plan Leakage states that "leakage is largely a defined contribution problem because the normal form of benefit is a lump sum distribution". Further they found that over 90% of participants chose to withdraw the cash balances.

The General Accountability Office (GAO) in its 2009 report found that cash outs have the greatest impact on retirement savings.

Thus if withdrawals have a huge impact on retirement savings, we need to identify what constitutes financial emergencies in the context of accessing retirement funding. Does changing one's job give rise to a financial emergency?

Pratt (2010) cites Paul Yakaboski of the Employee Benefit Research Institute saying there's a lot of attention given to retirement funding education, costs and investment strategies but, if the money doesn't make it there, who cares?

Where funds offer loans, the US DOL (1998) Working Group, recommended that plans be structured to allow participants to repay their loans (debts) in an orderly fashion particularly when changing jobs. Could this be a solution for South African retirement funds?

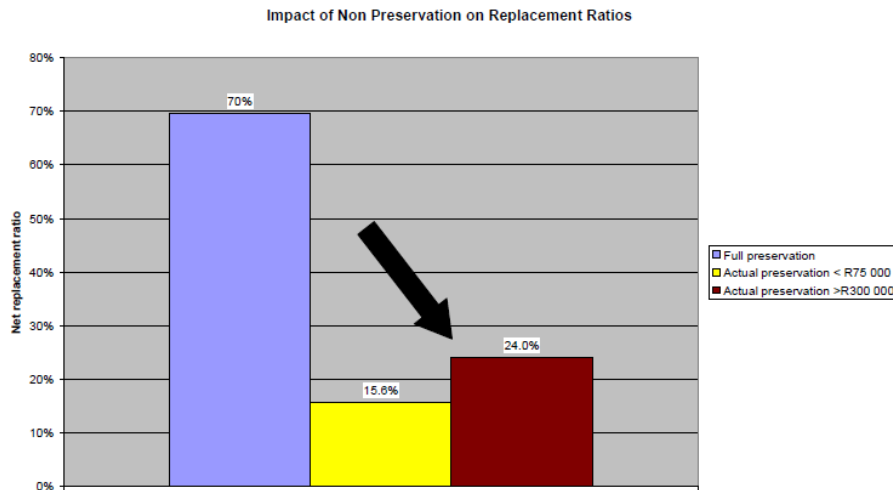
Preservation funds in SA only offer a transfer or cash withdrawal option. However, no facilities for repayment of loans exist via the retirement fund. Thus, preservation fund offerings have the potential to offer enhanced options in terms of addressing the present day needs of people at withdrawal and/or change of employment.

The question perhaps should not be to preserve or not to preserve; rather cognisance should be given to dis-accumulation.

#### 2.1.3.3 ***Impact of Non – Preservation and Costs***

The impact of non-preservation is akin to starting to save later in one's life. Cameron (2008) says that by starting to save late for retirement is a problem and asserts that once an individual reaches age 50 chances will be low that one will be able to save enough for retirement.

Alexander Forbes conducted studies showing the following graphs:



This shows an individual's expected retirement benefit following early withdrawals from the retirement fund based on actual claims experience.

**Net replacement ratio of final salary based on number of years to retirement and contribution rate**

Years to retirement	CONTRIBUTION RATES					
	10%	12%	14%	16%	18%	20%
5	4%	5%	6%	7%	7%	8%
10	9%	11%	13%	14%	16%	18%
15	15%	18%	21%	24%	27%	30%
20	22%	27%	31%	36%	40%	45%
25	31%	38%	44%	50%	57%	63%
30	42%	51%	59%	68%	76%	85%
35	56%	67%	78%	89%	100%	111%
40	66%	79%	92%	106%	119%	132%
45	75%	91%	106%	121%	136%	151%

SOURCE: ALEXANDER FORBES

Figure 1, Source: Personal Finance

This graph shows net replacement salary ratios at different years to retirement. If an individual saves at 12% of salary for 40 years, a 79% salary may be obtained, whereas saving for 30 years will reduce the expected salary to 51%. The effects of non-preservation will be felt at retirement.

Rusconi (2004), cited by Cameron (2008, 14), analysed retirement fund costs and how these affected the yield on retirement funds. The research showed that South Africa had some of the highest retirement fund costs in the world. Reductions in Yield were almost 45% on retirement annuity products, while for large schemes this ranged between 17% to 27%.

Two implications stem from the above discussion on costs and non-preservation. Firstly, the impact of non-preservation is greater than the impact of costs and thus it may be argued that compulsory preservation funding is

more important than cost reduction initiatives. Secondly, larger funds have lower fees and consequently higher yields, implying that increased preservation funding would lead to fewer withdrawals and affords fund size to grow even further.

#### **2.1.4 Stakeholder Considerations**

Momberg (2008) provides considerations for communication between key stakeholders in the retirement fund reform. The stakeholders included representatives from government, treasury, private industry, labour, civil society and media. The method included conducting personal and focused interviews to really attempt to understand how to the different parties felt the retirement fund reform proposals should be implemented.

The key findings included a desire to have “broad and extensive consultation” between all stakeholders, especially where issues are identified. Sincere and rigorous communication, education and inclusivity in decision making were required. She concludes by saying that retirement fund reform will touch “the essence, the soul of the nation” and that the “magic is not only in the solution, but also in the process”. Further she cites a response from one of the labour participants:

*“The process, in other words the sharing of ideas outside of Nedlac itself, is very valuable. When we sit down and talk to one another, although we differ, we realise we share the same ideals, it breaks down barriers, it breaks through the unknown, it builds bridges. This social dialogue questions our values. We grew up with certain values, now we’re exposed to new things in a non-threatening environment. Together we’re creating a new value system, based on caring for one another. We learn to respect one another and see each other as people, not as groups.”*

Greenblo (2012) mentions that the inherent complexities and sensitivities related to technicalities and politics resulting from the reform proposals and proposes that diplomatic invites to the discussion be provided as opposed to going about matters in such a way that would spark and provoke debate.

He goes on to say that the “SANRAL chaos” is a warning about what may happen if inadequate consultation and subsequent consensus is derived. Sometimes a “one size fits all approach is unsuited”. Put a vote to the people he says and justifies:

- A national public vote would require member education with regards to savings prior to the actual vote. This will create awareness and would be similar to the referendums of the 1990s, in particular the voter education program that preceded the 1994 elections and the Old Mutual and Sanalm demutualisation
- The years of work protests in and post 1979 resulted from the first compulsory preservation proposals which were ultimately scrapped
- Similarities show up regarding the anti-apartheid struggle and the “obnoxious SANRAL president that undermined National Treasury” which may result in “opportunistic mobilisation”.
- He contends that a vote does not result only in an outcome. More importantly it means that the people were included in the process.
- The dynamic aspects resulting from any compulsory preservation fund proposals would raise arguments for and against especially where holes in the consultation process is seen
- What then, if having an inefficient process after having exhausted consultations with all concerned?

It clear that the consensus views expressed a need to include all relevant parties in the decision making process and only then would the probability of the implementation of the proposed reforms become a reality. Momberg (2008) demonstrates the essence of Ubuntu being in the thoughts and minds of several of the interviewees.

Could the achievement of a successful acceptance of retirement fund reform pave the way to underpin how consultations and decisions in our society are made?

### **2.1.5 Education**

In the context of defined contributions funds and how members have the responsibility thereof, Merton (2007) uses the analogy of a surgical patient being wheeled into an operating room and being told that he can have between 7 and 17 stitches to be stitched up – the surgeon then asks which number he will choose. The point is that members are not educated enough to make complex decisions relating to their retirement funding. The GAO (2009) referred to the promotion of greater education on the importance of preserving savings.



Willet (2008) concludes that the imminent retirement of the baby boomer generation is creating an urgency to find solutions that help employees recognise their readiness for retirement. The use of diagnostic tools to raise awareness is seen as a critical tool for effective retirement planning.

O'Neill (2005) concludes that financial planners should gain greater insight into clients mind-sets and retirement obstacles prior to providing financial planning recommendations. They should also be able to provide catch-up recommendations to clients who may be described as late savers. Another option also recommended is to enable and assist retirees with stretching their retirement funds.

### **2.1.6 Today**

National Treasury (2012) released a discussion paper tabling renewed considerations for the proposed retirement fund reforms related to options for preservation. Consideration has been given to those who are retrenched in the form of a proposed withdrawal mechanism. The proposals also include an option for compulsory preservation funding to only apply to new employees and retaining the vested rights that existing employees may have.

In addition to the above, five options have been put up for consideration of how to implement a compulsory preservation funding model. These include:

- Full withdrawal with an adjusted tax threshold  
This includes the option to withdraw with an increased tax disincentive.
- A 3 to 5 year default monitoring period  
Herein an interim monitoring period will apply (say, 3 to 5 years) and the withdrawing individual would automatically be transferred into a preservation fund and the option to access the benefit will only be allowed after the individual has obtained advice.
- Partial Withdrawal  
Allow the individual to access a maximum of one third of accumulated savings
- A maximum income per month  
Allow an individual to access a certain maximum monthly income of the lesser of R5000 or 3% of his or her value.
- Full preservation

Allow no withdrawals prior to retirement.

The above options show consideration towards the individual on the part of National Treasury. Does it adequately address the stakeholder considers described above?

It is important that the intended use of the funds is also monitored. Further, how would the current state of an individual's impact on their desire to accept the options that have been tabled?

## **2.2 Savings in South Africa**

Kotze & Smit (2008) cite Prinsloo (2002) saying that debt and savings have an inverse relationship to each other. Attempts to increase retirement savings within pension fund reform may be seen as an attempt to increase savings. What does the broader savings picture look like in South Africa? National Treasury (2012) provides an appropriate point of departure from the retirement discussion above,

### **2.2.1 Systematic Irrationality**

National Treasury (2012) asserts that academic evidence show that individuals undervalue the future in favour of the present and over consume during their years of working, resulting in lower expected retirement benefits. People display signs of inertia when it comes to making decisions regarding savings and investment. It is highly likely that South Africans are similar.

### **2.2.2 Savings culture in South Africa**

Du Plessis (2008) indicates that household savings represent only 10% of national savings and has been on a declining slope to a point where, as cited by SARB( 2008) households are dissaving. The lacks of savings in households imply the absence of a "protection mechanism against the vagaries of economic changes". The results from interviews with economists indicate the following:

- The reduction in household saving cannot only be attributed to low levels of income
- Expectations of future income have a negative impact on household savings
- A combination of positive expectation coupled with a reduced expectation of life expectancy, stemming from HIV/AIDS notably, fuels consumption

- The presence of consumptive behaviour and conspicuous consumption were highlighted by most economists
- A sophisticated financial system that acts as an enabler to access credit facilities
- Welfare redistributive policies and welfare payments contributes towards a culture of dependency and entitlement
- The negative impact of an aspirational culture that was rooted in materialism
- The culture of consumerism has been shaped by the inequalities of the past.
- Questions were raised on whether or not the definition of savings as applied in first world countries were applicable in South Africa, e.g. if money is spent on education, is it an consumption (theoretical) or investment (South African context)?

Cronje (2009) found that key impacts on the low levels of saving in South Africa were financial liberalisation and credit extension afforded to households. Further, the high levels of debt to disposable income ratios leave individual little capacity to save. An assertion is made that financial deepening makes it increasingly harder for change in savings behaviour to be created through public policy. A possible proposal for a solution may lie in comparing South Africa to India and China, which also has inadequacies, but higher levels of saving than in South Africa.

Cronje reflects *“Their collective economic outlooks depends largely on the implementation of reforms to improve infrastructure, modernise its financial system and promote the investment in human capital through the appropriate investment in education and healthcare, while providing the foundation for the middle class in both countries to truly flourish.”* Further, Cronje goes on to say that *“it was the absence of sufficient financial sector development and a weak social safety net, coupled with a collective household culture and attitude that values saving ahead of consumption”*.

A lack of a suitable social security system that is broad based has also been mooted as reason for low levels in savings especially the middle class. Cronje says that there is tension between consumption and savings and that the National Credit Regulator therefore has a role to play to manage and counsel consumers, as well as to offer financial education. The access to credit facilities

coupled with the lack of financial education and awareness is core to the problem. Thus education can be improved and also implement appropriate cost effective savings mechanisms should be introduced.

The qualitative research done highlights the culture of savings in South Africa. It highlights the realities consumers face and contrasts with the ability of policy makers to implement effective solutions. In the context of retirement fund reform this is clearly relevant as regards compelling people to save while they are seduced by the availability of financial products that are consumption based. The NCR perhaps has an opportunity to work in conjunction with treasury to find solutions to help bridge the gap between the present and the future.

### **2.2.3 Debt in South Africa**

Compliance and Risk Resources (2012) indicate that unsecured lending recorded the largest year on year growth in value relative to other credit classes. It showed an almost 50% growth of R39.6 billion, albeit off a low base, but nevertheless still in excess of the growth afforded to secured credit and mortgages which grew by R29 billion and R26 billion respectively.

The report also states that credit maximums values have been increased to R230,000 and repayment periods to 84 months. Another finding showed that “unsecured personal loans have been taken up because mortgage finance was not extended to a consumer who would normally qualify for a mortgage. Consumers vulnerable to changes in economic conditions were extended the largest slice of unsecured loans at or close to the interest rate cap of 32.1%. Margins are high in the unsecured loan market and even though growth in consumer credit appears unsustainable, growth rates in this sector had not slowed.

Kotze & Smit (2008) conclude that levels of debt and the cost thereof have increased to such an extent that consumers are not able to save after repaying debts. They go on to state that “high levels of debt and an ignorance and disregard towards saving influence consumers’ ability to start and manage new businesses”.

While National Treasury is struggling in its attempts to promote a culture of saving, we see that access to credit is increasing without any similar problems. The rates of interest are shockingly high at 32.1% and affect the poorest of South African workers. The question that this raises is why is this growth in

unsecured credit allowed to carry on almost uncontested and the noble intentions of providing decent retirement benefits wrought with resistance and complexities? Can systems be introduced that make it easier for individuals to lend from their own retirement benefits and pay themselves back at a rate of 32.1% p.a., especially considering that some of these funds are being used to fund mortgages which is allowed in the Pension Funds Act?

## **2.3 Summary**

The effects of leakage through the non-preservation of retirement fund monies destroys values over the long term as much, if not more than that which is eroded by costs. Significant attention has been given to the latter, yet almost water tight arguments to preserve retirement funds have come short ever since reform was proposed in 2004. One of the main arguments has been that compulsory preservation funds will not take place while “proposals for mandatory preservation of retirement funds can’t be implemented in a situation where there is no income support for the majority of unemployed workers”.

Treasury has shown a willingness to address the concerns of unemployed workers. Why has it been so difficult to at least implement compulsory preservation for employed workers? In the interim, all workers who access their retirement funds will be poorer for they have lost time to save – time which is as great an influence as investment returns, contributions and costs.

Cognisance is given to the culture of savings in South Africa. The historical background has been understood. The new South Africa with a supportive economic environment has only created a culture of consumerism. Debt is pervasive and it’s inverse relationship to saving will dampen attempts to implement compulsory preservation funding.

Inclusive solutions are required for South Africans to move forward. From a reform perspective, this takes the form of determining how individuals feel towards compulsory preservation funding as a first step. With that results can we establish that the presence of debt concerns indeed discourages saving for retirement and the desire to accept proposed retirement reforms.

### **3 Research Questions**

The literature review combined retirement into the broader context of savings and debt. The questions that will attempt to be answered by this research include determining the views of people toward compulsory preservation funding, how the presence of debt affects an individual's actions, and lastly how the presence of debt affects an individual's attitude towards compulsory preservation funding.

Two categories of research will be undertaken. The first is descriptive in nature and the second, hypotheses derived from the resultant responses.

#### **3.1 Research Question**

The research question will attempt to describe the views of individuals towards retirement funding aspects highlighted in the literature review, with an emphasis on compulsory preservation retirement funding.

Broad areas in the describing the views of people include the following:

- Attitudes and opinions
- Financial independence
- Guidance and education
- Views on conditions for accessing benefits
- Past and future behaviour

#### **3.2 Hypothesis 1**

The hypothesis is that individuals cash their benefits when debt is of concern. The null and alternative hypotheses are as follows:

H<sub>0</sub>: An association does not exist between people who have cashed out their withdrawal benefits and who also have the burden of debt

H<sub>1</sub>: An association exists between people who have cashed out their withdrawal benefits and who also have the burden of debt

### **3.3 Hypothesis 2**

The hypothesis herein is that individuals wish to be able to cash in their retirement fund benefits when they change jobs when, again, debt is of concern.

The null and alternative hypotheses are as follows:

$H_0$ : An association does not exist between people who want to be able to cash out their withdrawal benefits and who also have the burden of debt

$H_1$ : An association exists between people who want to be able to cash out their withdrawal benefits and who also have the burden of debt

## **4 Research Design and Methodology**

### **4.1 Research Basis**

#### **4.1.1 Research Philosophy**

The research philosophies adopted by the researcher contains important assumptions about the way in which the researcher views the world (Saunders, et al 2009). In relation to the research questions being addressed a critical realism philosophy will be adopted.

Saunders, et al, goes on to infer that the social world may only be understood once the social structures that have given rise to it are understood. An understanding of why things are happening cannot occur independently. In relation to the context of the research being conducted, i.e. retirement fund reform considerations the critical realist's philosophy can be of purpose in demonstrating that attempts to compel people to save will be increasingly difficult to implement without giving due consideration to understanding why people may be against it in light of their current situations.

Saunders, et al also mention how the researchers views may be biased as a result of cultural experiences, world views and upbringing. This is true in that the researcher has a background in financial services. The bias that may be inherent is acknowledged and consideration thereof will be provided through out this research.

The researcher's ontology, or view of the nature of reality, is that multiple views are present and that appropriate approaches may be necessary to best answer the research questions that have been formulated. Government, unions, employers, individuals and dependants may have different views and priorities regarding present and future financial needs.

#### **4.1.2 Research Paradigms**

Saunders, et al 2009, use the Four paradigms of social theory model as developed by Burrell and Morgan, 1982, in order to summarise and the aforementioned research philosophies. The researcher leans towards the regulatory perspective which seeks to work within the existing state of affairs.



This includes both an interpretive and functionalist's paradigm which are subjectivist and objectivist respectively.

The interpretive paradigm lends itself to understanding and attempting to explain what is taking place with regards to attitudes and views related to retirement planning. It attempts to provide less of an explanation for behaviours and rationalisms and more of an attempt to bring to the fore important irrationalities that may be overlooked by policy makers.

On the other hand, the functionalist paradigm is more objective in nature and will provide greater emphasis on seeking to explain why a preference to use retirement savings to fund present day financial obligations may be occurring.

#### **4.1.3 Research Approach**

The research philosophies and paradigms discussed both forms the basis of, and supports the researcher's approach which will be to use a deductive research approach. The deductive approach will be used to test theory. The deductive approach to be conducted will result in a collection of individual retirement fund member quantitative data through a survey questionnaire. After developing a hypothesis on whether or not individuals would want access to their withdrawal benefits when changing jobs, significance testing of the results applied.

#### **4.2 Research Design**

The research design follows from the research philosophy and approach described above. A descriptive study will be conducted followed by an explanatory study which attempt to describe what is happening. The research will be quantitative.

The quantitative study will focus on individuals and a sufficiently large sample will attempt to be utilised. An online survey will be used to distribute the survey and collate the results. Furthermore, the survey will be constructed in such a way so as to pose the same questions from the viewpoint of members and dependants of the members so as to ask individuals to put themselves in the shoes of another person when thinking about their retirement benefits.

## **4.3 Research Methodology**

### **4.3.1 Sampling method**

As the research revolves around the views of ordinary people who belong to pension funds, the intention was to try and get as many potential respondents as possible. Malhotra (2010) describes snowball sampling as a technique in which a random group of individuals are selected and referrals then derived. This method was used in order to gain access to e-mail addresses of people, who were then requested to send the e-mail to their respective contacts.

### **4.3.2 Research Instrument**

An online survey was created using Formstack.com. The form was designed and published online.

### **4.3.3 Data Collection**

Two routes were used to obtain data. The first was to make contact with attendees of the Institute of Retirement Funds (IRF) conference who would be trustees and financial services providers and obtain their e-mail addresses. Thereafter an email would be sent to them with a link directing the recipient to an online survey. A complete address list of attendees was obtained from a provider at the conference. The survey was then sent out to the contacts who were predominantly trustees. It was also requested that they forward the survey onto their fund members. Thereafter a database of contacts on an umbrella fund was obtained and the survey link also forwarded onto those members.

### **4.3.4 Process of analysis**

The response data was exported from the online survey's administration hub. Malhotra (2010) describes the data preparation process which was followed by the researcher. This included the following stages:

- Checking the questionnaire
- Editing where necessary
- Coding variables for ease of use after data collection
- Transcribing the data by exporting it from the website
- Cleaning the data as necessary
  - Where applicable converting text to numbers and vice-versa
  - Removing outliers

- Grouping certain categories of variables
- Checking for duplicates
- Analysing the data using an appropriate software package

#### **4.3.5 Limitations**

Saunders, et al (2009) provides considerations for determining limitations and/or credibility of the research. The following limitations relevant to the research were identified:

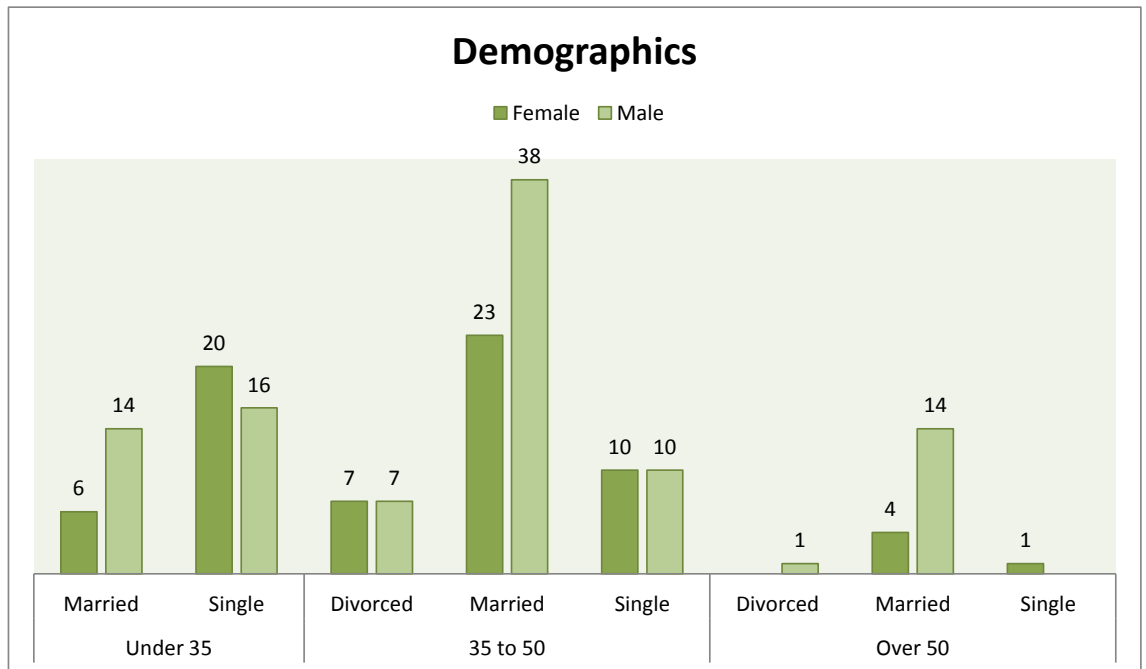
- The population of retirement fund members is large and thus time constraints and resource constraints may be present
- Subject and/or participant bias may be present considering that the respondents were first contacted at the IRF conference
- 177 responses were received and were thus not able to make recommendations representative of the population of retirement fund members

## 5 Results

177 responses were obtained. The demographics are indicated below and a summary of the responses to questions summarised thereafter.

### 5.1 Summary of data

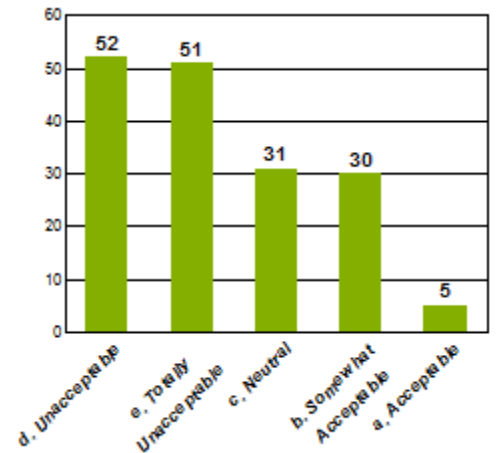
	Female	Male	Total
<b>Under 35</b>			
Married	6	14	20
Single	20	16	36
<b>35 to 50</b>			
Divorced	7	7	14
Married	23	38	61
Single	10	10	20
<b>Over 50</b>			
Divorced		1	1
Married	4	14	18
Single	1		1
<b>Total</b>	<b>71</b>	<b>100</b>	<b>171</b>



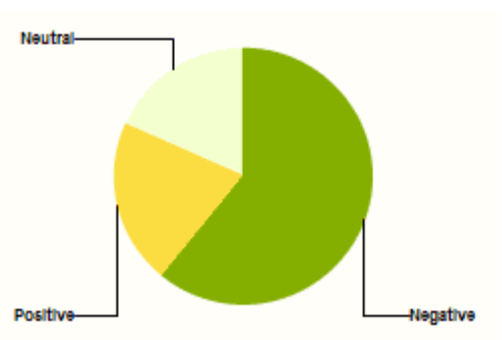
**Fig. 1 Attitudes and Opinions**

*Are fees being charged on retirement fund products acceptable or not?*

	Responses in Rank Order	
	Count	Average
d. Unacceptable	52	31%
e. Totally Unacceptable	51	30%
c. Neutral	31	18%
b. Somewhat Acceptable	30	18%
a. Acceptable	5	3%
<b>Total</b>	<b>169</b>	<b>100%</b>



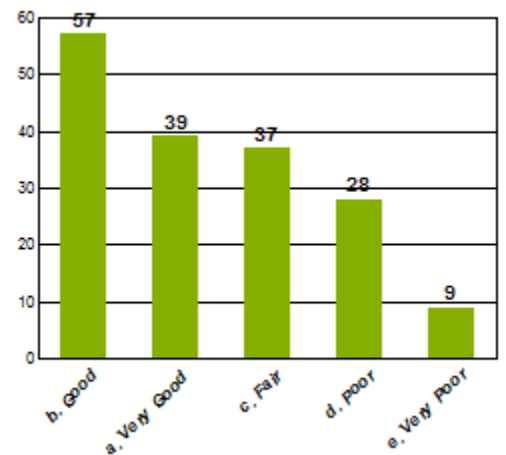
	Responses in Rank Order	
	Count	Average
Negative	103	61%
Positive	35	21%
Neutral	31	18%
<b>Total</b>	<b>169</b>	<b>100%</b>



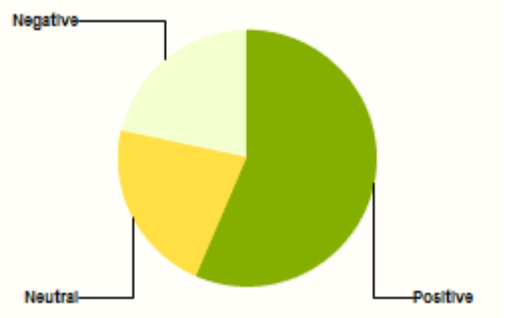
**Fig. 2 Attitudes and Opinions**

*How do you rate your increases in earnings potential in the future?*

	Responses in Rank Order	
	Count	Average
b. Good	57	34%
a. Very Good	39	23%
c. Fair	37	22%
d. Poor	28	16%
e. Very Poor	9	5%
<b>Total</b>	<b>170</b>	<b>100%</b>



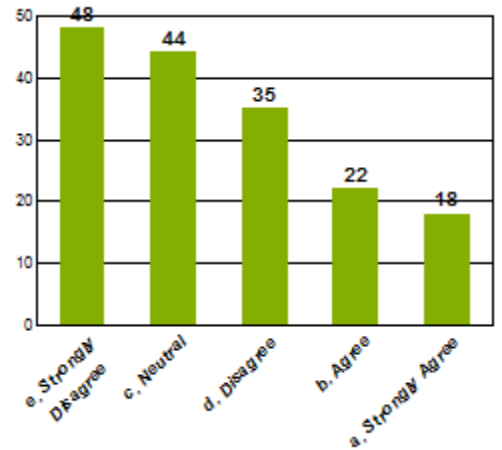
	Responses in Rank Order	
	Count	Average
Positive	96	56%
Neutral	37	22%
Negative	37	22%
<b>Total</b>	<b>170</b>	<b>100%</b>



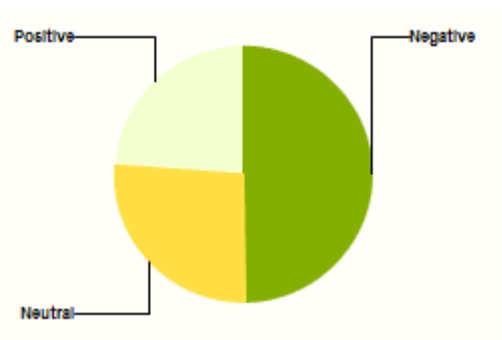
**Fig. 3 Attitudes and Opinions**

*I regret how I spent my previous retirement fund benefits*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	48	29%
c. Neutral	44	26%
d. Disagree	35	21%
b. Agree	22	13%
a. Strongly Agree	18	11%
<b>Total</b>	<b>167</b>	<b>100%</b>



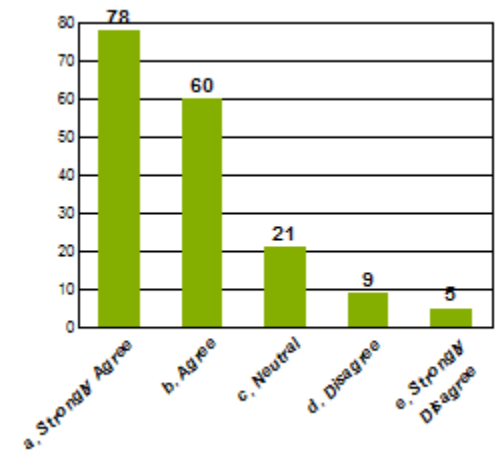
	Responses in Rank Order	
	Count	Average
Negative	83	50%
Neutral	44	26%
Positive	40	24%
<b>Total</b>	<b>167</b>	<b>100%</b>



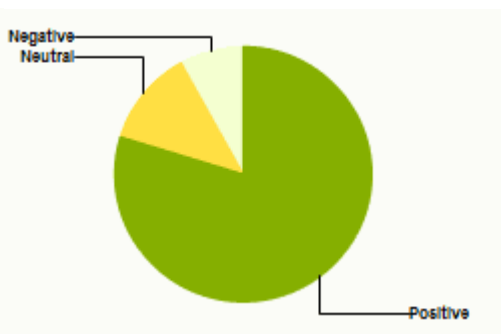
**Fig. 4 Attitudes and Opinions**

*I should spend less and save more*

	Responses in Rank Order	
	Count	Average
a. Strongly Agree	78	45%
b. Agree	60	35%
c. Neutral	21	12%
d. Disagree	9	5%
e. Strongly Disagree	5	3%
<b>Total</b>	<b>173</b>	<b>100%</b>



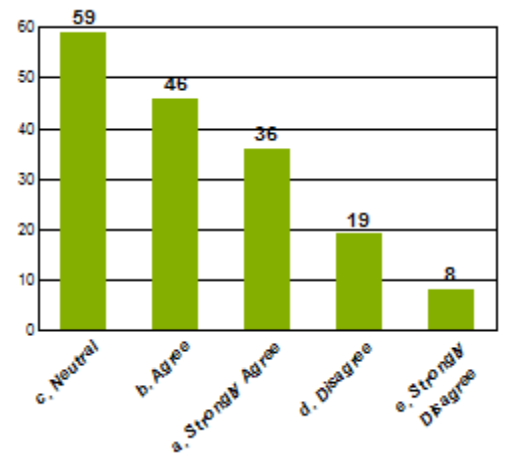
	Responses in Rank Order	
	Count	Average
Positive	138	80%
Neutral	21	12%
Negative	14	8%
<b>Total</b>	<b>173</b>	<b>100%</b>



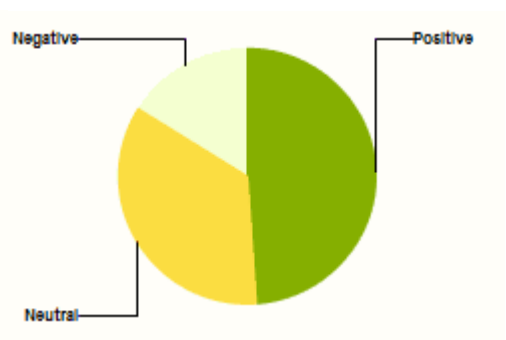
**Fig. 5 Attitudes and Opinions**

*The future is more important than the present*

	Responses in Rank Order	
	Count	Average
c. Neutral	59	35%
b. Agree	46	27%
a. Strongly Agree	36	21%
d. Disagree	19	11%
e. Strongly Disagree	8	5%
<b>Total</b>	<b>168</b>	<b>100%</b>



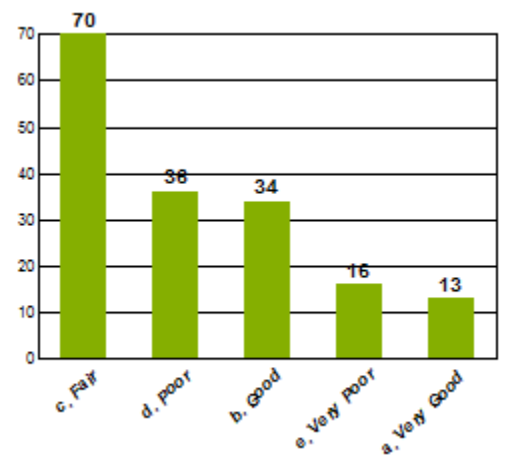
	Responses in Rank Order	
	Count	Average
Positive	82	49%
Neutral	59	35%
Negative	27	16%
<b>Total</b>	<b>168</b>	<b>100%</b>



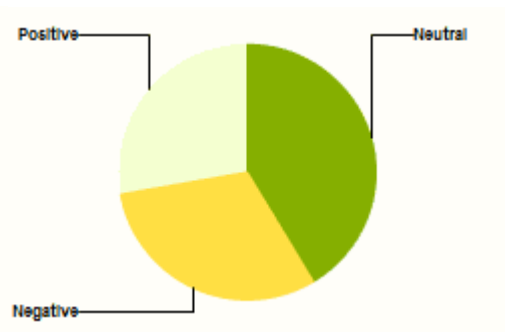
**Fig. 6 Attitudes and Opinions**

*What do you think of retirement fund offerings in South Africa?*

	Responses in Rank Order	
	Count	Average
c. Fair	70	41%
d. Poor	36	21%
b. Good	34	20%
e. Very Poor	16	9%
a. Very Good	13	8%
<b>Total</b>	<b>169</b>	<b>100%</b>



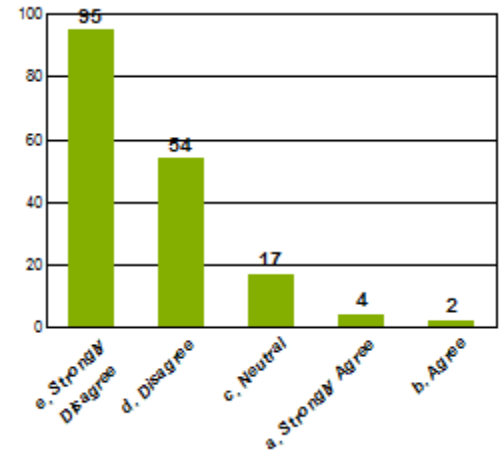
	Responses in Rank Order	
	Count	Average
Neutral	70	41%
Negative	52	31%
Positive	47	28%
<b>Total</b>	<b>169</b>	<b>100%</b>



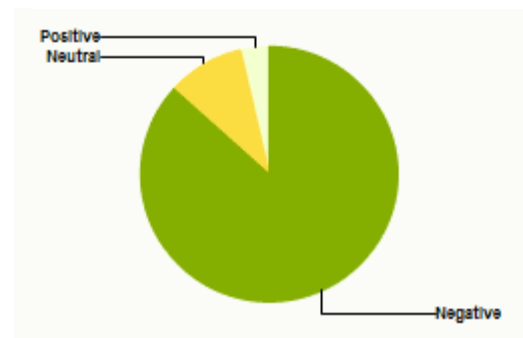
**Fig. 7 Financial Independence vs. Dependence**

*I have faith that someone else will look after me in retirement*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	95	55%
d. Disagree	54	31%
c. Neutral	17	10%
a. Strongly Agree	4	2%
b. Agree	2	1%
<b>Total</b>	<b>172</b>	<b>100%</b>



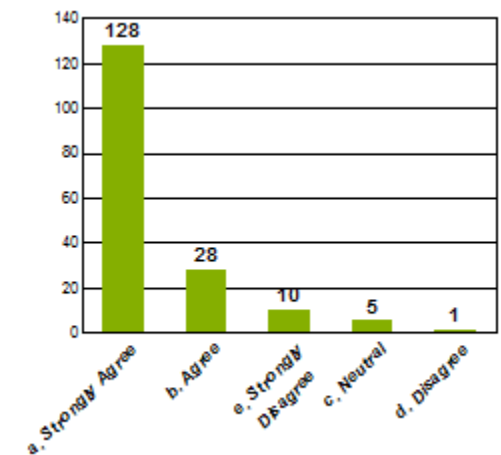
	Responses in Rank Order	
	Count	Average
Negative	149	87%
Neutral	17	10%
Positive	6	3%
<b>Total</b>	<b>172</b>	<b>100%</b>



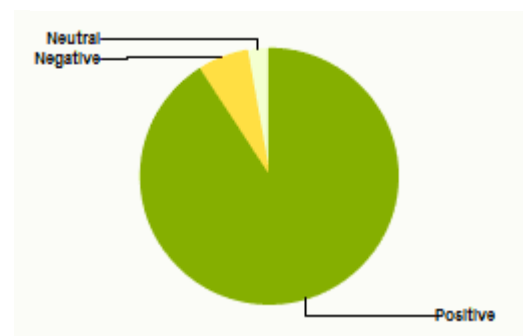
**Fig. 8 Financial Independence vs. Dependence**

*I want to be financially independent when I am retired*

	Responses in Rank Order	
	Count	Average
a. Strongly Agree	128	74%
b. Agree	28	16%
e. Strongly Disagree	10	6%
c. Neutral	5	3%
d. Disagree	1	1%
<b>Total</b>	<b>172</b>	<b>100%</b>



	Responses in Rank Order	
	Count	Average
Positive	156	91%
Negative	11	6%
Neutral	5	3%
<b>Total</b>	<b>172</b>	<b>100%</b>

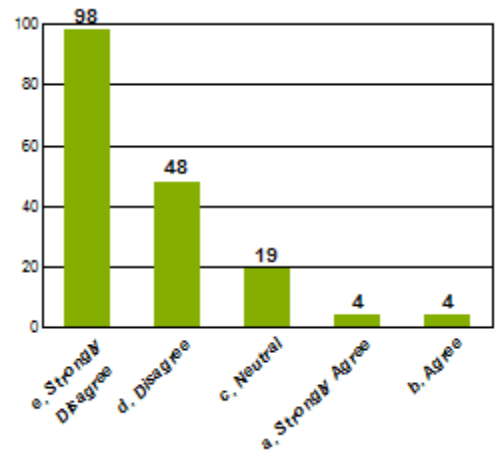




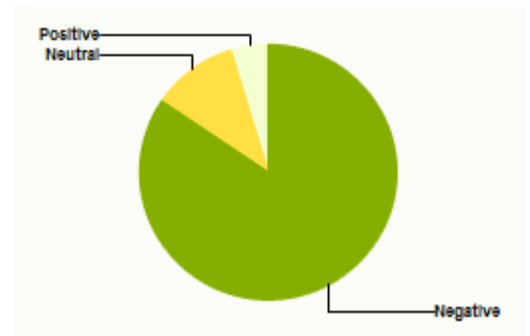
**Fig. 9 Financial Independence vs. Dependence**

*My children must look after me when I am retired*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	98	57%
d. Disagree	48	28%
c. Neutral	19	11%
a. Strongly Agree	4	2%
b. Agree	4	2%
<b>Total</b>	<b>173</b>	<b>100%</b>



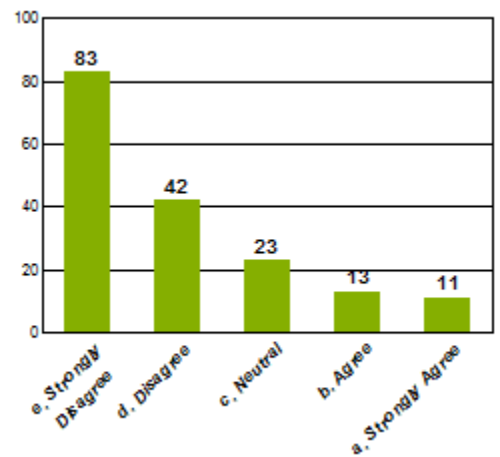
	Responses in Rank Order	
	Count	Average
Negative	146	84%
Neutral	19	11%
Positive	8	5%
<b>Total</b>	<b>173</b>	<b>100%</b>



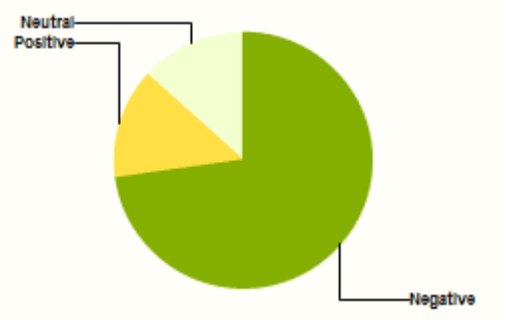
**Fig. 10 Financial Independence vs. Dependence**

*The government must be responsible for my retirement*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	83	48%
d. Disagree	42	24%
c. Neutral	23	13%
b. Agree	13	8%
a. Strongly Agree	11	6%
<b>Total</b>	<b>172</b>	<b>100%</b>



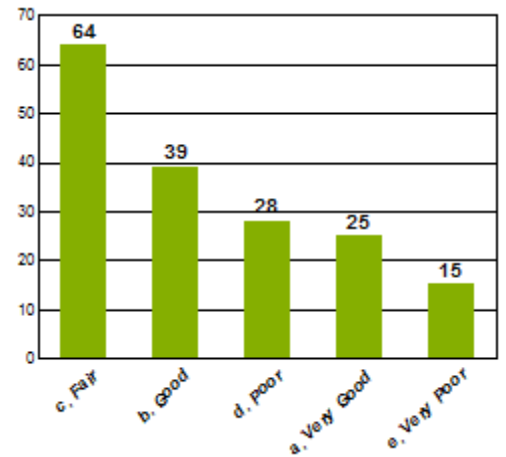
	Responses in Rank Order	
	Count	Average
Negative	125	73%
Positive	24	14%
Neutral	23	13%
<b>Total</b>	<b>172</b>	<b>100%</b>



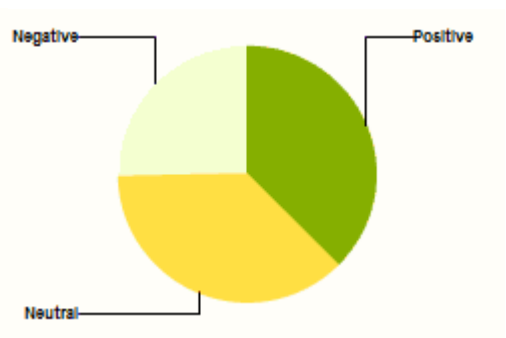
**Fig. 11** Guidance and Education Received vs. Saving responsibly

*How do you rate the relevant financial advice you receive*

	Responses in Rank Order	
	Count	Average
c. Fair	64	37%
b. Good	39	23%
d. Poor	28	16%
a. Very Good	25	15%
e. Very Poor	15	9%
<b>Total</b>	<b>171</b>	<b>100%</b>



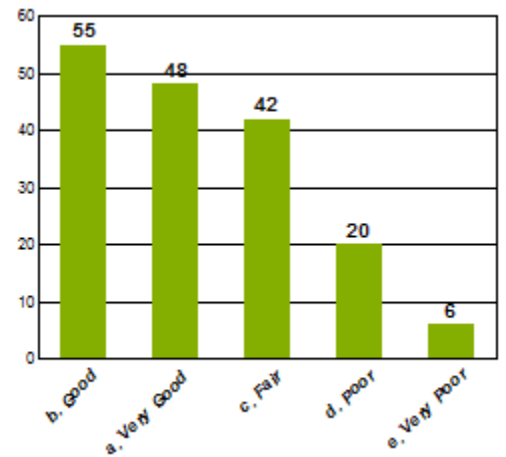
	Responses in Rank Order	
	Count	Average
Positive	64	37%
Neutral	64	37%
Negative	43	25%
<b>Total</b>	<b>171</b>	<b>100%</b>



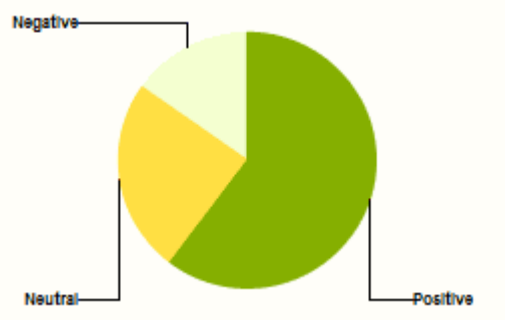
**Fig. 12** Guidance and Education Received vs. Saving responsibly

*How would you rate your ability to save responsibly for the long term?*

	Responses in Rank Order	
	Count	Average
b. Good	55	32%
a. Very Good	48	28%
c. Fair	42	25%
d. Poor	20	12%
e. Very Poor	6	4%
<b>Total</b>	<b>171</b>	<b>100%</b>



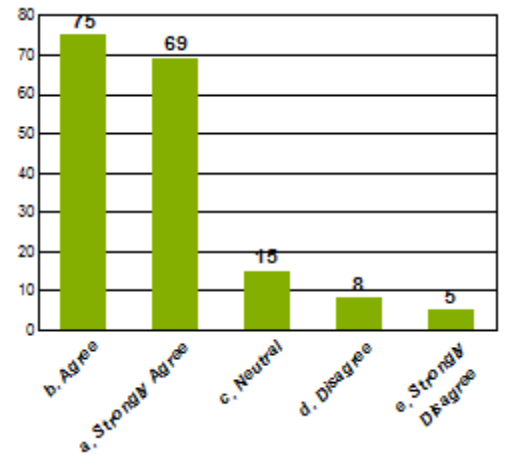
	Responses in Rank Order	
	Count	Average
Positive	103	60%
Neutral	42	25%
Negative	26	15%
<b>Total</b>	<b>171</b>	<b>100%</b>



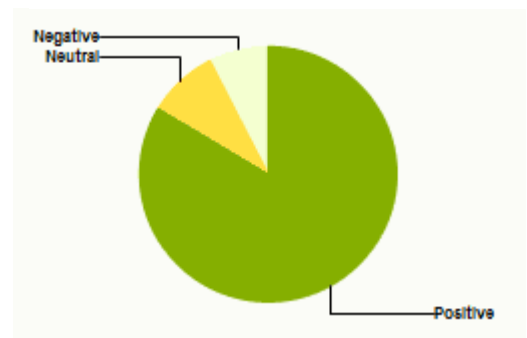
**Fig. 13** Guidance and Education Received vs. Saving responsibly

*I am financially responsible*

	Responses in Rank Order	
	Count	Average
b. Agree	75	44%
a. Strongly Agree	69	40%
c. Neutral	15	9%
d. Disagree	8	5%
e. Strongly Disagree	5	3%
<b>Total</b>	<b>172</b>	<b>100%</b>



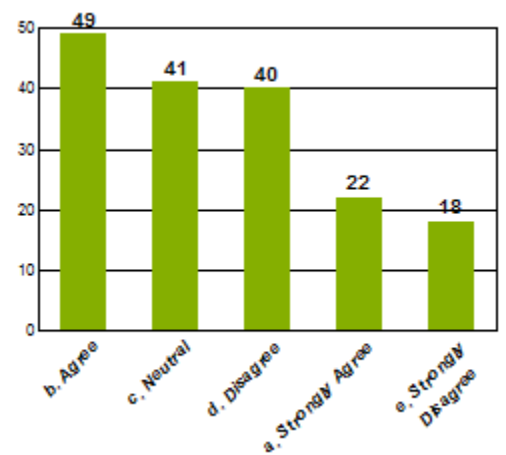
	Responses in Rank Order	
	Count	Average
Positive	144	84%
Neutral	15	9%
Negative	13	8%
<b>Total</b>	<b>172</b>	<b>100%</b>



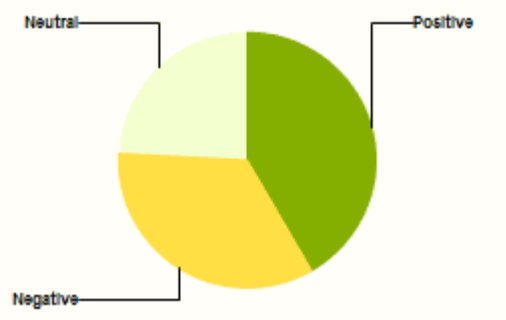
**Fig. 14** Guidance and Education Received vs. Saving responsibly

*I need the advice and/or guidance of a financial planner to make responsible decisions*

	Responses in Rank Order	
	Count	Average
b. Agree	49	29%
c. Neutral	41	24%
d. Disagree	40	24%
a. Strongly Agree	22	13%
e. Strongly Disagree	18	11%
<b>Total</b>	<b>170</b>	<b>100%</b>



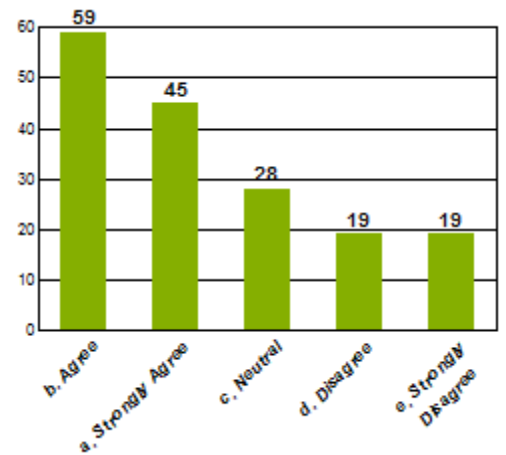
	Responses in Rank Order	
	Count	Average
Positive	71	42%
Negative	58	34%
Neutral	41	24%
<b>Total</b>	<b>170</b>	<b>100%</b>



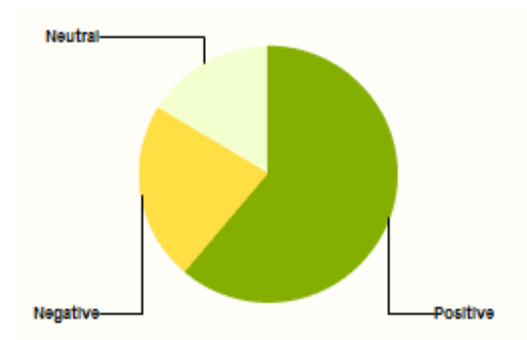
**Fig. 15 Guidance and Education Received vs. Saving responsibly**

*When I left my last employer, a financial planner did not assist and/or try to contact me*

	Responses in Rank Order	
	Count	Average
b. Agree	59	35%
a. Strongly Agree	45	26%
c. Neutral	28	16%
d. Disagree	19	11%
e. Strongly Disagree	19	11%
<b>Total</b>	<b>170</b>	<b>100%</b>



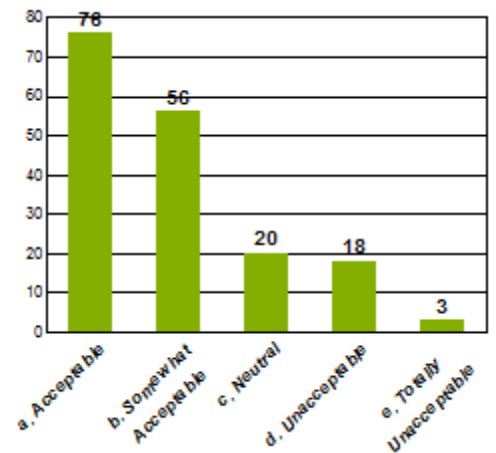
	Responses in Rank Order	
	Count	Average
Positive	104	61%
Negative	38	22%
Neutral	28	16%
<b>Total</b>	<b>170</b>	<b>100%</b>



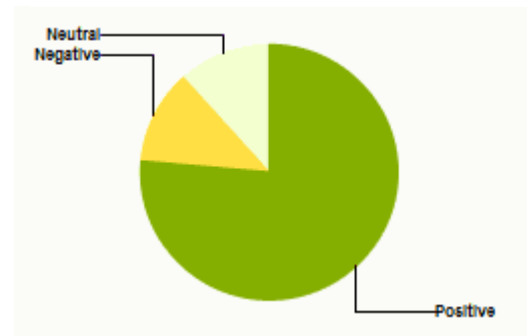
**Fig. 16 Views on Conditions for Access**

*Government must make preservation funding compulsory*

	Responses in Rank Order	
	Count	Average
a. Acceptable	76	44%
b. Somewhat Acceptable	56	32%
c. Neutral	20	12%
d. Unacceptable	18	10%
e. Totally Unacceptable	3	2%
<b>Total</b>	<b>173</b>	<b>100%</b>



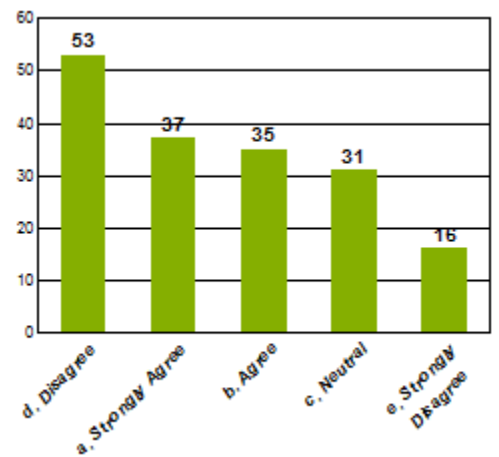
	Responses in Rank Order	
	Count	Average
Positive	132	76%
Negative	21	12%
Neutral	20	12%
<b>Total</b>	<b>173</b>	<b>100%</b>



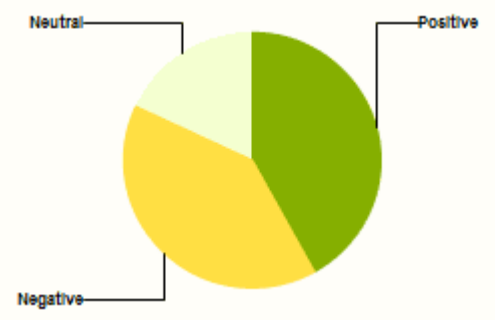
**Fig. 17 Views on Conditions for Access**

*I must be compelled to save my full retirement fund benefit*

	Responses in Rank Order	
	Count	Average
d. Disagree	53	31%
a. Strongly Agree	37	22%
b. Agree	35	20%
c. Neutral	31	18%
e. Strongly Disagree	16	9%
<b>Total</b>	<b>172</b>	<b>100%</b>



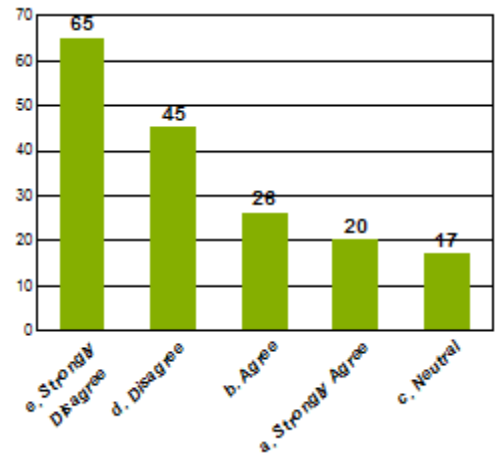
	Responses in Rank Order	
	Count	Average
Positive	72	42%
Negative	69	40%
Neutral	31	18%
<b>Total</b>	<b>172</b>	<b>100%</b>



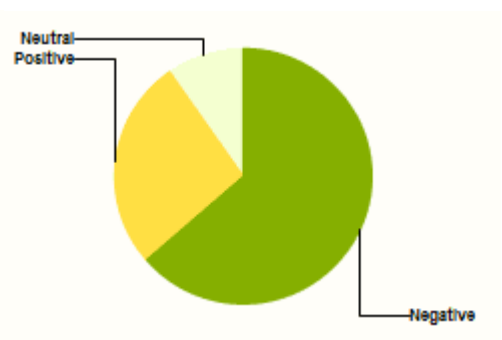
**Fig. 18 Views on Conditions for Access**

*I should be allowed to cash 100% of my retirement fund benefit if I change my job*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	65	38%
d. Disagree	45	26%
b. Agree	26	15%
a. Strongly Agree	20	12%
c. Neutral	17	10%
<b>Total</b>	<b>173</b>	<b>100%</b>



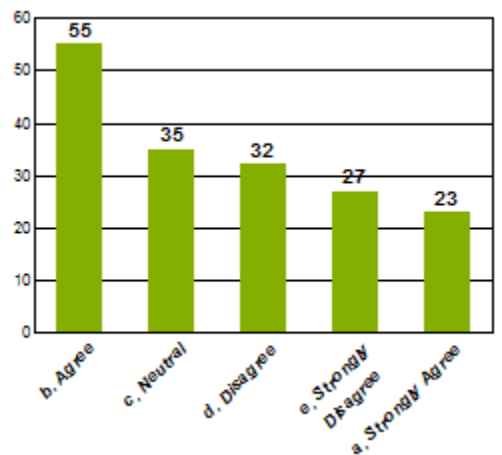
	Responses in Rank Order	
	Count	Average
Negative	110	64%
Positive	46	27%
Neutral	17	10%
<b>Total</b>	<b>173</b>	<b>100%</b>



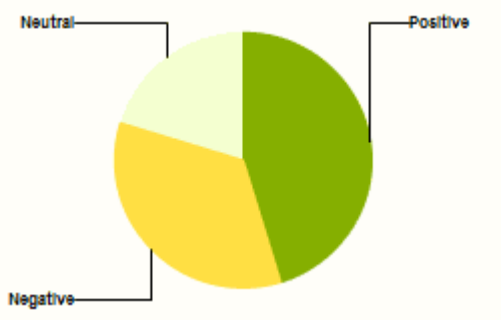
**Fig. 19 Views on Conditions for Access**

*I should only be allowed to cash a portion of the current benefit and save the balance*

	Responses in Rank Order	
	Count	Average
b. Agree	55	32%
c. Neutral	35	20%
d. Disagree	32	19%
e. Strongly Disagree	27	16%
a. Strongly Agree	23	13%
<b>Total</b>	<b>172</b>	<b>100%</b>



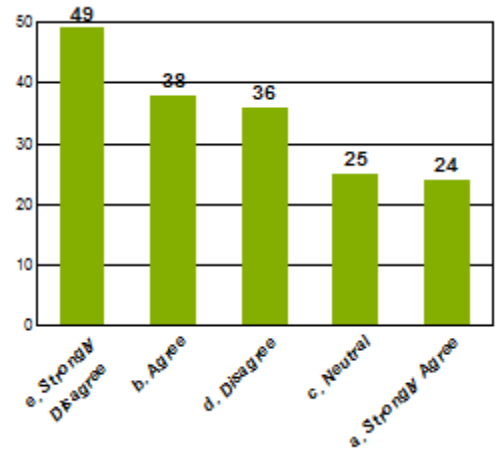
	Responses in Rank Order	
	Count	Average
Positive	78	45%
Negative	59	34%
Neutral	35	20%
<b>Total</b>	<b>172</b>	<b>100%</b>



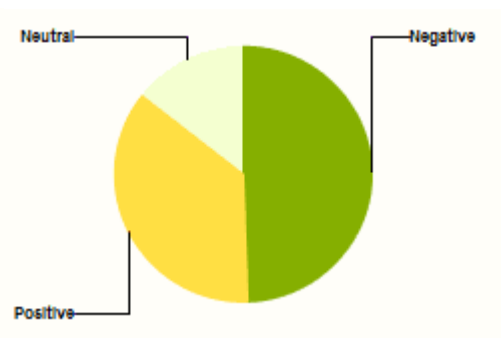
**Fig. 20 Views on Conditions for Access**

*If I change my job I should be allowed to cash in my retirement fund savings*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	49	28%
b. Agree	38	22%
d. Disagree	36	21%
c. Neutral	25	15%
a. Strongly Agree	24	14%
<b>Total</b>	<b>172</b>	<b>100%</b>



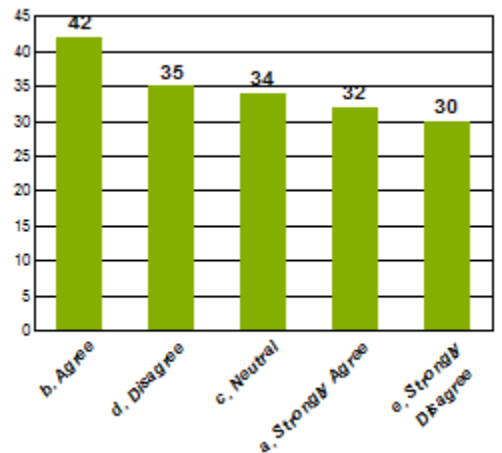
	Responses in Rank Order	
	Count	Average
Negative	85	49%
Positive	62	36%
Neutral	25	15%
<b>Total</b>	<b>172</b>	<b>100%</b>



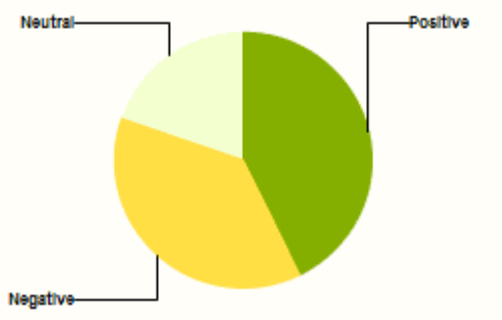
**Fig. 21 Views on Conditions for Access**

*If I had less debt I would be less concerned with my retirement fund benefits than I am now*

	Responses in Rank Order	
	Count	Average
b. Agree	42	24%
d. Disagree	35	20%
c. Neutral	34	20%
a. Strongly Agree	32	18%
e. Strongly Disagree	30	17%
<b>Total</b>	<b>173</b>	<b>100%</b>



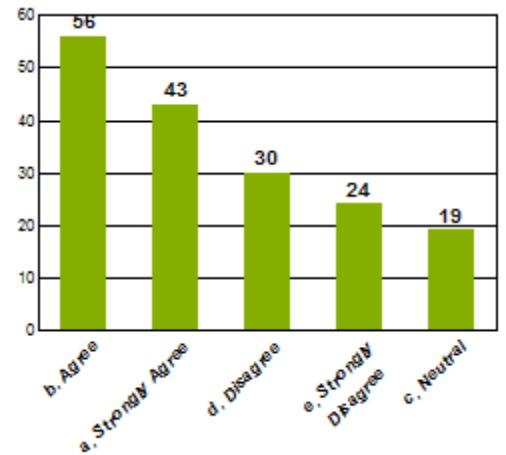
	Responses in Rank Order	
	Count	Average
Positive	74	43%
Negative	65	38%
Neutral	34	20%
<b>Total</b>	<b>173</b>	<b>100%</b>



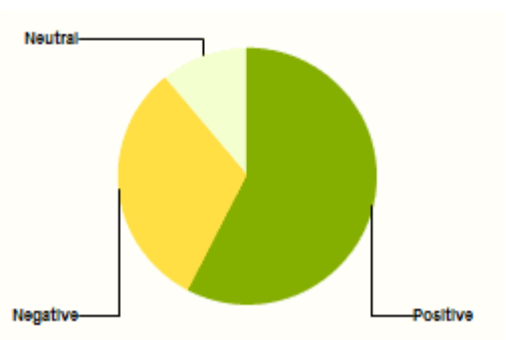
**Fig. 22 Views on Conditions for Access**

*If I lose my job I should be allowed to cash in my retirement fund savings*

	Responses in Rank Order	
	Count	Average
b. Agree	56	33%
a. Strongly Agree	43	25%
d. Disagree	30	17%
e. Strongly Disagree	24	14%
c. Neutral	19	11%
<b>Total</b>	<b>172</b>	<b>100%</b>



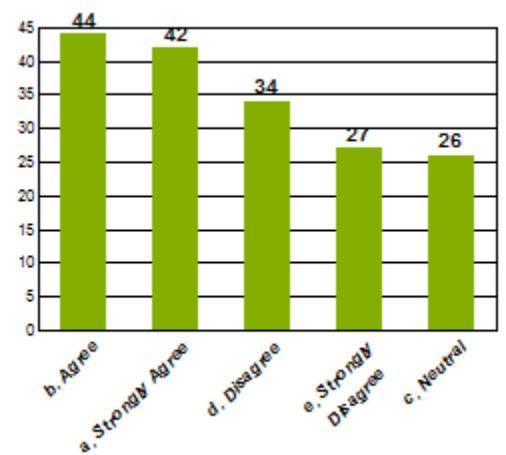
	Responses in Rank Order	
	Count	Average
Positive	99	58%
Negative	54	31%
Neutral	19	11%
<b>Total</b>	<b>172</b>	<b>100%</b>



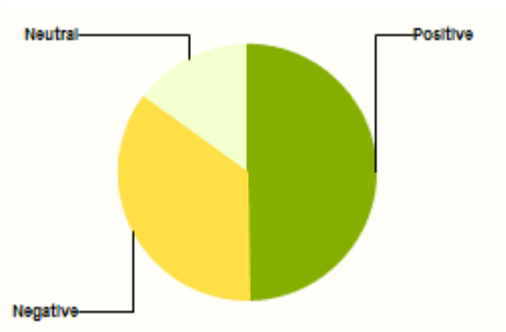
**Fig. 23 Views on Conditions for Access**

*It should be harder for me to access my retirement fund benefits when I change jobs*

	Responses in Rank Order	
	Count	Average
b. Agree	44	25%
a. Strongly Agree	42	24%
d. Disagree	34	20%
e. Strongly Disagree	27	16%
c. Neutral	26	15%
<b>Total</b>	<b>173</b>	<b>100%</b>



	Responses in Rank Order	
	Count	Average
Positive	86	50%
Negative	61	35%
Neutral	26	15%
<b>Total</b>	<b>173</b>	<b>100%</b>

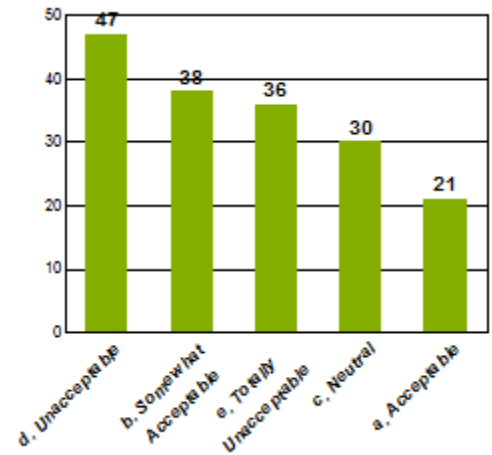




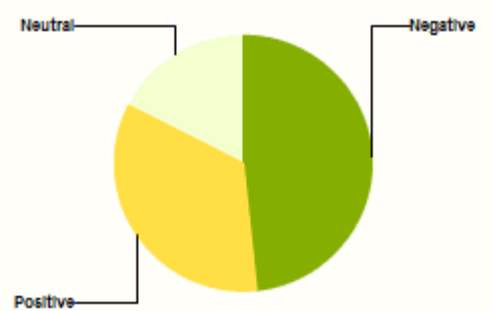
**Fig. 24 For what may benefits be accessed?**

*Accessing retirement funds to pay off debt is ok.*

	Responses in Rank Order	
	Count	Average
d. Unacceptable	47	27%
b. Somewhat Acceptable	38	22%
e. Totally Unacceptable	36	21%
c. Neutral	30	17%
a. Acceptable	21	12%
<b>Total</b>	<b>172</b>	<b>100%</b>



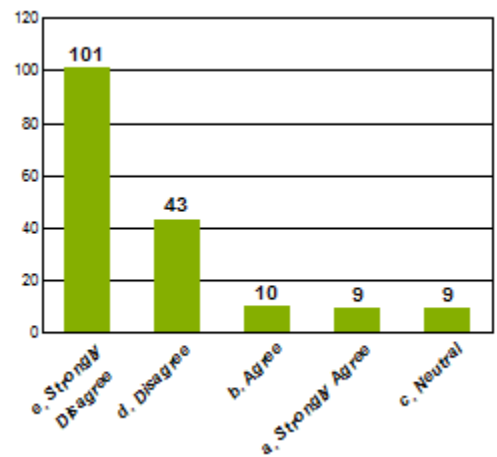
	Responses in Rank Order	
	Count	Average
Negative	83	48%
Positive	59	34%
Neutral	30	17%
<b>Total</b>	<b>172</b>	<b>100%</b>



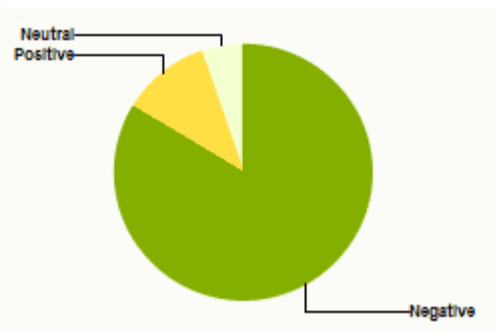
**Fig. 25 For what may benefits be accessed?**

*I should be able to cash in my retirement fund money before retirement for travel and entertainment expenses*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	101	59%
d. Disagree	43	25%
b. Agree	10	6%
a. Strongly Agree	9	5%
c. Neutral	9	5%
<b>Total</b>	<b>172</b>	<b>100%</b>



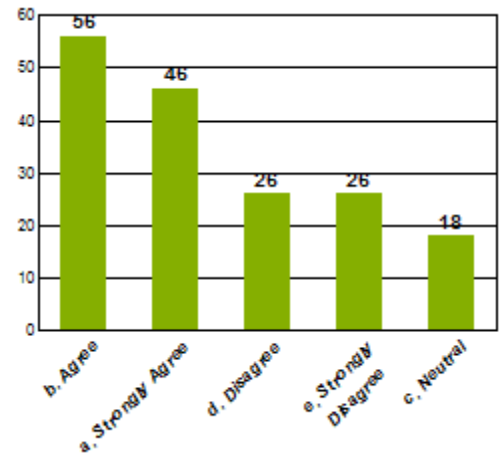
	Responses in Rank Order	
	Count	Average
Negative	144	84%
Positive	19	11%
Neutral	9	5%
<b>Total</b>	<b>172</b>	<b>100%</b>



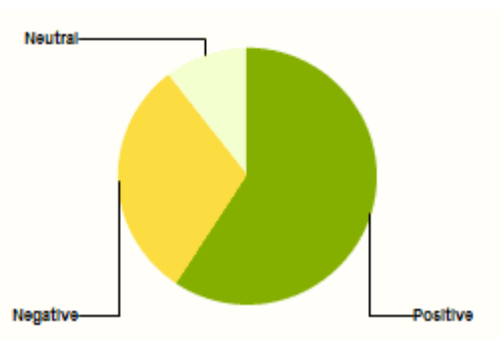
**Fig. 26 For what may benefits be accessed?**

*If I resign and want to start my own business I should be allowed to cash in my money*

	Responses in Rank Order	
	Count	Average
b. Agree	56	33%
a. Strongly Agree	46	27%
d. Disagree	26	15%
e. Strongly Disagree	26	15%
c. Neutral	18	10%
<b>Total</b>	<b>172</b>	<b>100%</b>



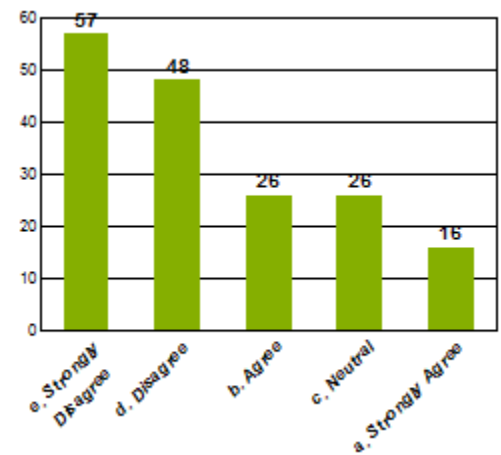
	Responses in Rank Order	
	Count	Average
Positive	102	59%
Negative	52	30%
Neutral	18	10%
<b>Total</b>	<b>172</b>	<b>100%</b>



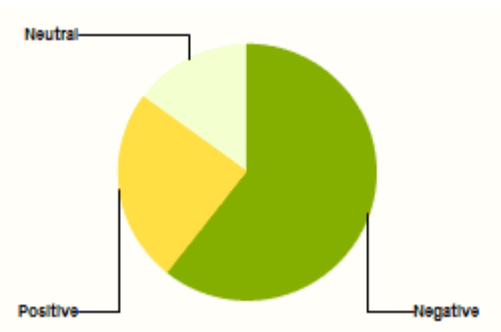
**Fig. 27 For what may benefits be accessed?**

*If I want to purchase or upgrade my house I should be able to cash in my retirement fund money*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	57	33%
d. Disagree	48	28%
b. Agree	26	15%
c. Neutral	26	15%
a. Strongly Agree	16	9%
<b>Total</b>	<b>173</b>	<b>100%</b>



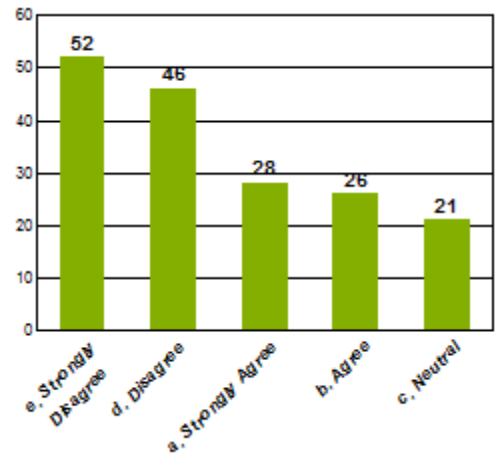
	Responses in Rank Order	
	Count	Average
Negative	105	61%
Positive	42	24%
Neutral	26	15%
<b>Total</b>	<b>173</b>	<b>100%</b>



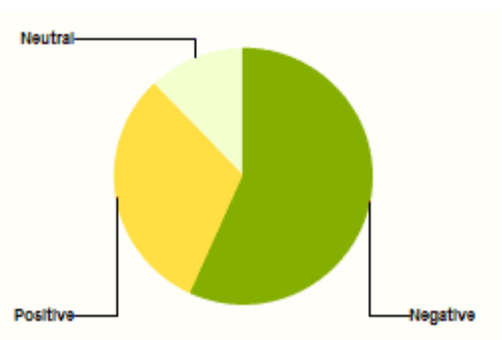
**Fig. 28 For what may benefits be accessed?**

*If I want to settle debt I should be able to cash in my retirement fund money*

	Responses in Rank Order	
	Count	Average
e. Strongly Disagree	52	30%
d. Disagree	46	27%
a. Strongly Agree	28	16%
b. Agree	26	15%
c. Neutral	21	12%
<b>Total</b>	<b>173</b>	<b>100%</b>

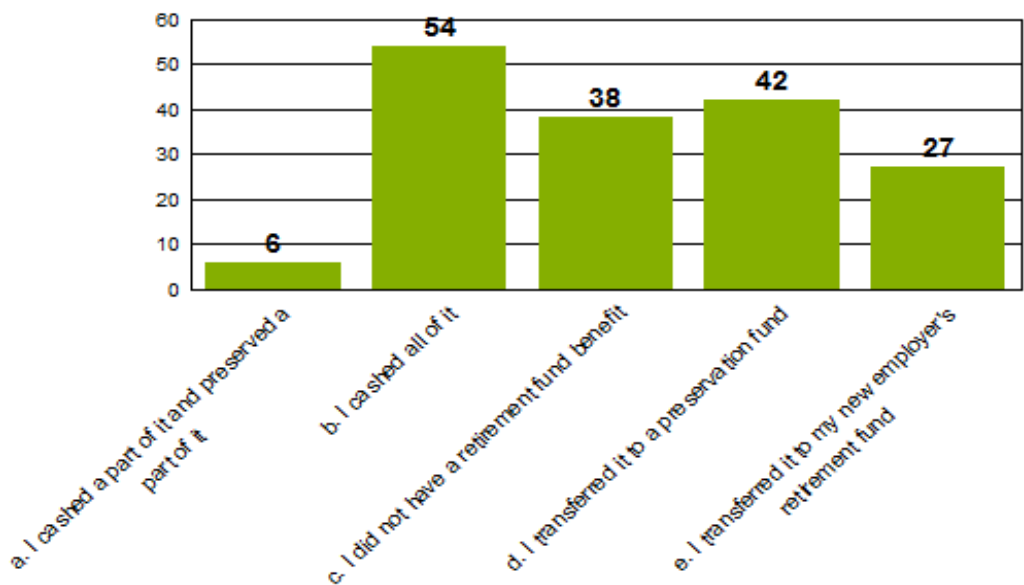


	Responses in Rank Order	
	Count	Average
Negative	98	57%
Positive	54	31%
Neutral	21	12%
<b>Total</b>	<b>173</b>	<b>100%</b>



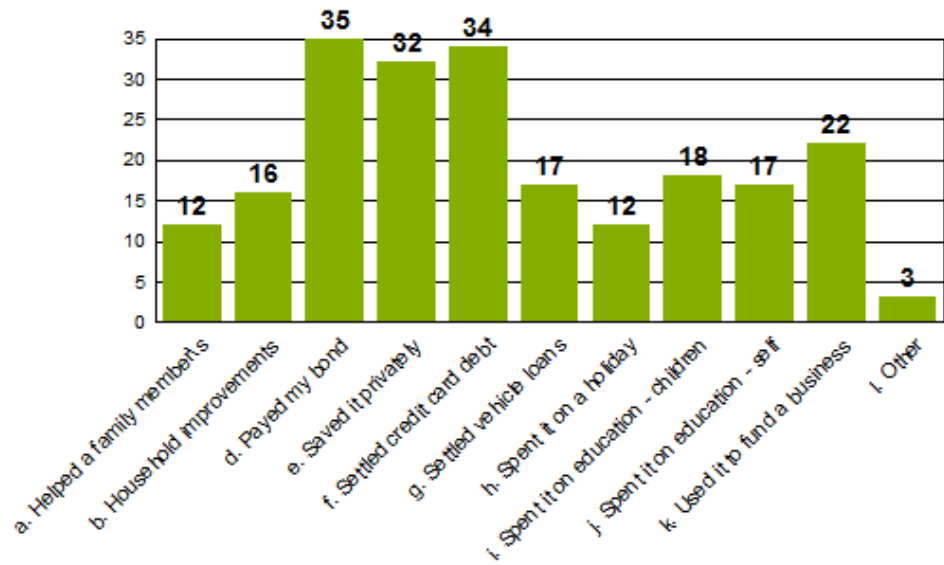
**Fig. 29 Past and Future Behaviour**

*What did you do with your retirement fund benefit from your previous employer?*



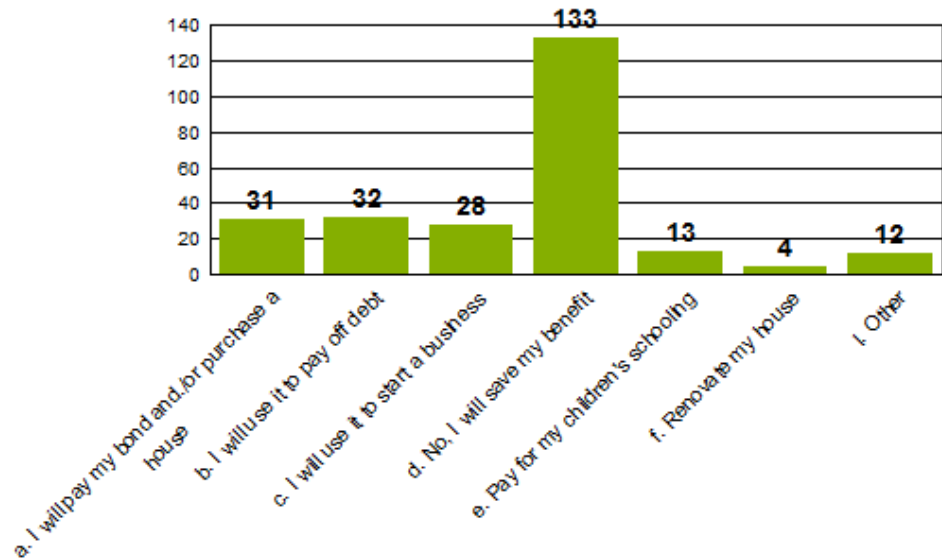
**Fig. 30 Past and Future Behaviour**

*If you cashed your benefit, what did you spend it on?*



**Fig. 31 Past and Future Behaviour**

*Do you plan to use your retirement fund benefit if you change your job?*



## 5.2 Individual Comments

<p><i>A small percentage of leakage is acceptable but it should be hard/difficult to do and only when loss of income is suffered.</i></p>
<p><i>After being in the assurance industry most of my life I would never take out any savings plan with a life assurance company EG Endowments or Retirement Annuities - cost way too high. In hind site I would only use direct stock market vehicles or maybe unit trusts, a better investment would be Satrix to build capital and then go directly into the share market</i></p>
<p><i>Bifficlut to say if withdrawing saving should be prohibited as there are good examples of people useng these saving to start their own businesses</i></p>
<p><i>Close the loophole of members accessing their pension benefits through fake divorces</i></p>
<p><i>Compulsory retirement savings is a good to help govt, with provideing benefits to the aged. But we should also discourage , foreigners from been part of the old age grants offererd to our local aged. We should have more tight controlls for savings , U should have at least contributed and lived in the country for say more that 15 years, this will make and impact ti the retirement savings kitty. Also we should have more tax breaks for retirement savings ,</i></p>
<p><i>Current government is unable to plan properly for the future. Very short sighted. Do not think long term.</i></p>
<p><i>Employees do not understand how retirement funds work - they should be more educated and not allowed to cash in the funds. It should be made compulsory for all companies to provide some sort of retirement benefit for the staff.</i></p>
<p><i>Employers should be forced by law to pay most of the employee's retirement funds over into a preservation fund for the employee when they leave a company. (80%)</i></p>
<p><i>For people that have worked their entire lives and paid their taxes... the Government should provide a pension... working people are paying taxes and people that have never worked are claiming the state pensions leaving the "workers" to fund their own!!!</i></p>
<p><i>Govament shoold look after us all. It is there job to make up for the horrible apartheid they put us through</i></p>
<p><i>I believe that preserving your benefit should be your choice and not a decision imposed on you. Some people are more responsible than others and a blanket decision to prevent you accessing your savings is an unwanted parternalistic decision that could have negative implications if the savings vehicle is raided by fraudulent operations etc.</i></p>
<p><i>i do not have enough retirement funding as a result of a single parent raising twins on my own. no maintenance received as the system failed me</i></p>

<p>"I now live in Australia, where preservation exists. Access is allowed under certain circumstances.   The SA government cannot afford to be responsible for retirement, but should provide the framework, including compulsory retirement preservation.   I do provide support to the principle that access under certain conditions may make sense, especially where the person has lost their job and is unable to secure another to support a basic lifestyle.   Access where one has emmigrated also makes sense, but the current position of paying the full tax now is fair."</p>
<p>I think our government mismanage funds and I would not want them anywhere near my retirement money. They get enough from the tax we pay.</p>
<p>I think there needs to be flexibility. Preservation should be the default option. People should then apply to be allowed to access some of the money if they are ill or in dire financial need.</p>
<p>I think we need to be less paternalistic regarding what people do with their retirement money. Rules will be circumvented in any event if people are desparate. ( and after all it is their money) Besides people are working longer and retirement may in any event become an outmoded concept.</p>
<p>"I would like to receive all my funds in a lumpsum and not just 1/3.   because I know how to savemy money"</p>
<p>Individuals should be informed and thereafter make an informed decision based on their need.</p>
<p>It is long overdue.</p>
<p>My Opinion is that employees should be allowed to have access to their retirement fund if they are going to use it responsibly e.g paying off their bonds. The payment should be made directly to the institution becasue employees can save on paying more interest over a long period.</p>
<p>Portions of the funds should be made available to for use. However, a percentage should still be kept back and should not be available.</p>
<p>Preservation should be made compulsory because a lot of South Africans do not save due to the fact that they simply do not earn enough money for even the day to day living expenses. Retirement savings should therefore be inaccessible because atleast people's kids will have something to look to in the event of the owner of those savings passing away.</p>
<p>Retirement Benefits must be kept in a preservation fund until age of retirement or total disability</p>
<p>The government should protect the retirements against Inflation and most importantly Tax</p>
<p>THE PRESENTATION IS GOOD,IT OPENS ONE'S MIND.MAKE YOU TO BE VEGELANTE TO YOUR RETIREMENT FUND MONEY.</p>
<p>The reality is that many people are losing their jobs, and the retirement benefit is often the only savings that would be available; try as many might, they will not have any income other than this</p>

*lump sum. I also hate the concept of the Nanny State - we are all grown up and if you cannot provide sensibly for your old age - well that's it - it is only YOUR responsibility. I also don't like being told what to do by people who think they know better than me and my own very personal and specific circumstances.*

*The sooner it becomes compulsory for individuals to preserve their retirement fund monies, the better!*

*The sooner there is compulsory preservation the better.*

*This should be an option and not compulsory*

*This should be compulsory at any level*

*Too many people underestimate the importance and the requirement for proper financial planning. Furthermore too many people overestimate the expected gains from retirement funds. Multiple paths to financial security should be explored, dividend yielding shares, property, stocks and bonds, retirement funds etc.... no single product is a full solution. Risks and gains should be spread over multiple paths.*

*You do not realise the importance of saving for retirement when you're young especially when you're battling to survive financially. When the children grow up and your expenses are less you become more aware of saving for retirement. Compulsory preservation of funds will improve this situation but i think that under some circumstances member's funds should be made available to them if they prove the dire need.*

### 5.3 Hypothesis 1

Responses		What did you do with your retirement fund benefit from your previous employer?		
		Cashed it	Transferred	Total
Agree or Disagree? (If i had less debt i would be less concerned with my retirement fund benefits than i am now)	Disagree	14	30	44
	Agree	30	27	57
Total		44	57	101

Expected Frequencies		What did you do with your retirement fund benefit from your previous employer?		
		Cashed it	Transferred	Total
Agree or Disagree? (If i had less debt i would be less concerned with my retirement fund benefits than i am now)	Disagree	19	25	44
	Agree	25	32	57
Total		44	57	101

Chi Stat

Degrees Of Freedom:

Critical ChiSQRD

p-Value



## 5.4 Hypothesis 2

Responses		Agree or Disagree? (I should only be allowed to cash a portion of the current benefit and save the balance)		
		Disagree	Agree	Total
Agree or Disagree? (If i had less debt i would be less concerned with my retirement fund benefits than i am now)	Disagree	28	21	49
	Agree	22	40	62
Total		50	61	111

Expected Frequencies		Agree or Disagree? (I should only be allowed to cash a portion of the current benefit and save the balance)		
		Cashed it	Transferred	Total
Agree or Disagree? (If i had less debt i would be less concerned with my retirement fund benefits than i am now)	Disagree	22	27	49
	Agree	28	34	62
Total		50	61	111

Chi Stat

Degrees Of Freedom:

Critical ChiSQRD

p-Value

## 6 Discussion of Results

### 6.1 Research Question

#### 6.1.1 Attitudes and Opinions

##### 6.1.1.1 *Analysis of Responses*

- ***Are fees being charged on retirement fund products acceptable or not?***

On average, the respondents felt that fees being charged on retirement fund products were unacceptable. The strength of this opinion is seen with 61% of the sample having an overall negative opinion of the acceptability of costs. This coupled with Rusconi's (2004) assertion that costs of South African retirement funds are some of the highest in the world demonstrates that both a problem and opportunity is indeed present.

- ***How do you rate your increases in earnings potential in the future?***

A large proportion of the respondents felt positive that that the potential for their earnings to increase in future is good. We have seen that while income levels have been rising, so too has expenditure, and now, increasingly, the expenditure is being directed towards unsecured lending. Further, how does this explain low levels of household saving?

This result provides an opportunity to determine what drives this attitude. This could take the form of determining if the companies individuals work for are doing well? Or perhaps are they continuously improving education? In any case, comparing earnings potential to past financial behaviour

- ***I regret how I spent my previous retirement fund benefits***

The majority of respondents indicated that they did not regret how they spent their retirement benefits. Does this imply that an implied pleasure of spending in the present dominates the thinking of the public? Alternatively, how did having access to retirement fund values have contributed to an improved state of financial, or otherwise, wellbeing at the time?

As Greenblo (2012) says, "Put it to the people". South Africans do things differently. Accepted theories may not apply in our current context. We could speculate, or we could just ask?

- ***I should spend less and save more?***

This resulted in an overwhelming positive weighted response, i.e. 80% of respondents felt they were spending too much and should direct some of the spending instead to saving. The preceding question noted people showed little regret if they had spent their retirement fund benefit. How does this contrast with the prevalence of leakage in the South African retirement system? Will we find people regretting their present day decisions when they reach retirement?

This inverted attitude supports Treasury's concerns and desire to implement compulsory preservation funds. The result will be that irrational behaviour in the present may be constrained to an extent with the implementation of relevant policies.

- ***The future is more important than the present***

Most respondents were neutral on this question. However, the aggregate of positive feelings outweighed the negative responses. This would indicate that future oriented policies would resonate with people in the retirement fund context which is long term in nature. In addition, it also indicates uncertainty by implication as the number of neutral responses dominated.

Does the presence of debt bias the respondents?

- ***What do you think of retirement fund offerings in South Africa***

The responses indicated a fairly mixed feeling towards the present retirement offerings in South Africa. Again, most respondents had a neutral view which could indicate that the question may not have been able to be interpreted accurately thus leading to the adopted stance.

Clear communication and education of the proposed retirement offerings would perhaps at least offer an opportunity to determine how accurately respondents felt and why they felt that way.

#### 6.1.1.2 **Summary**

The prevailing attitude towards retirement fund is fair, with a negative opinion on retirement fund costs. This provides an opportunity for changing attitudes for the better by considering policies and or reforms that are inclusive of these opinions.

People feel positive about their potential to increase their income in future and have an attitude to want to save more, supporting their agreement that the future is more important than the present.

Therefore, in relation to retirement fund reform, perhaps by including a proposal of simultaneous cost reductions, the reform proposals would stand an increased chance of being accepted by the general public.

The application hereof also supports stakeholder consideration aspects as highlighted in the literature review i.e. that by allowing for public input into the reform process, more robust proposals can be constructed that people may welcome as they have been included on the journey to a proposed solution.

### 6.1.2 **Financial Independence vs. Dependence**

#### 6.1.2.1 **Analysis of responses**

- ***I have faith that the someone else will look after me in retirement***  
87% of respondents disagreed or strongly disagreed with this statement indicating a preference to be financially independent. The idea of having to look after others which seem to be prevalent in our society appears to be something that respondents want to distance themselves from.

- ***I want to be financially independent when i am retired***

Again, the majority of respondents, 91%, indicated that they want financial independence at retirement. Behaviour though raises the question of whether or not individuals understand how to achieve this. The need and desire though cannot be overlooked.

- ***My children must look after me when i am retired***

This question raised strong disagreement and an overall 84% disagreement. This supports the answers on the question of “someone else looking after me in retirement”

- ***The government must be responsible for my retirement***

This showed another overall negative view, 73%, on being dependant on the state in one’s retirement.

#### 6.1.2.2 **Summary**

People feel that the idea of depending on anyone but oneself dominated the results here. The sample group wants to be independent. They indicate that they do not want to be reliant on government, nor their children, nor do they feel that anyone else will look after them in retirement.

Could this strong need for financial independence be leveraged by policy makers wanting to introduce retirement fund reform? The need for this financial independence provides a strong case for supportive policies to be implemented that not only encourages, but also describes and educates individuals on how to be financially dependent. The role of the financial planner may thus also be important in assisting individuals reach in achieving their financial goals.

### 6.1.3 Guidance and education

#### 6.1.3.1 *Analysis of results*

- How do you rate the relevant financial advice you receive

No dominant results were displayed by the group of respondents, with a balance displayed as regards their perceived level of advice that they had received.

How could these results be improved? An opportunity thus arises to identify what people feel constitutes good advice and use that response as a platform to enhance the type and/or level of advice individuals experience.

- How would you rate your ability to save responsibly for the long term  
60% of respondents felt positive that their ability to save for the long was good. The remaining 40% represents a large enough amount of people who could do with guidance in trying to achieve their long term financial goals.
- I am financially responsible  
The 84% of people who answered that they were financially responsible is a large proportion of the sample. This outcome is in contrast to the savings and debt behaviour indicated in the literature review and indicates that perhaps an inherent bias exists in the sample used. However, further investigation may be required to determine what the financial responsibility actually means to people.
- I need the advice and/or guidance of a financial planner to make responsible decisions  
The wide spread of results indicate that a group of respondents had mixed feelings towards the use of a financial planner indicating that differences in opinion exist with regards to using financial advisors in making responsible financial decisions.

- When i left my last employer, a financial planner did not assist and/or try to contact me.

61% of people indicated that they did not have contact with a financial advisor when they withdrew and/or terminated employment. Reasons for why individuals are not being contacted by or making use of financial advisors when they terminate employment need to be ascertained by either the employer and/or boards of trustees of funds to ensure that as much is done as possible to afford members with making the best possible decision with regards to their options at withdrawal.

#### 6.1.3.2 **Summary**

Feelings with regards to guidance and education and the requirement thereof are fairly mixed. The strong sense of financial responsibility indicated by the respondents raises the question of whether or not an element of bias exists in the sample group.

The relatively high proportion of individuals who indicated that they were not contacted by a financial advisor indicates that reasons thereof should be sought. Boards of trustees and or employer can play a role here in trying to assist employees with making the right decision. Another question that this raises is whether or not there is a desire by consultants to contact withdrawing members in the current context of the high rate withdrawals as discussed. If so, then perhaps product providers should allocate resources to avail themselves to members in order to provide guidance and education.

FAIS regulations also make it harder for advisors to get accredited. Could exemption be granted for the provision of advice as regards withdrawal options? This would ensure that individuals do not make decisions by themselves. The inertia people have regarding saving and investment decisions described in the literature review would stand a greater chance of being counter acted against if decisions are made with guidance.

## 6.1.4 Views on conditions for accessing retirement funds

### 6.1.4.1 *Analysis of results*

- Government must make preservation funding compulsory

An overwhelming majority indicated that compulsory preservation funding is desired. The sample may be biased. However, this indicates that a large proportion of people do understand the value of having decisions made for them, thus removing the opportunity loss people may perceive to experience in the short term when having to make a choice regarding their savings.

- I must be compelled to save my full retirement fund benefit

This question is phrased in a different way relative to the preceding question. The result indicates mixed feelings towards the question. In contrast with the preceding question one wonders whether or not the question was phrased in such a way that bias was included. Alternatively, does the question come across as confrontational in the minds of people? Further, does this indicate outcomes are determined and/or influenced that perhaps the way questions and/or decisions are phrased?

- I should be allowed to cash 100% of my retirement fund benefit if i change

This question is my job

Most members, 64%, had a negative feeling towards this question which specifically mentioned changing jobs as opposed to losing a job. The high staff turnover rates indicated in the literature review indicate that not all members are losing their jobs which would warrant a consideration for granting access to retirement funds benefits. However, people who voluntarily change jobs, probably do so with the intention of getting a better job. Would they thus need access to their retirement funds?

With Treasury having expressed consideration for those who lose their jobs, this “change of jobs” may be a loophole that could be closed within the current legislative framework without coming across as obtrusive.



- I should only be allowed to cash a portion of the current benefit and save the balance.

Respondents had mixed feeling towards this option while being slightly weighted towards agreeing that a portion of funds should be accessible. The question may have been slight vague in that no percentage was indicated. Adding a figure indicating how much may actually be withdrawn may distort the subsequent results.

- If i change my job i should be allowed to cash in my retirement fund savings

This question was similar to one of the preceding questions. However, it did not include a percentage that may be accessed. The amount of people who disagreed with cashing in a 100% benefit compared to those who disagreed with cashing in an unspecified benefit reduced from 64% to 49% indicating that people feel that a portion of the benefits should be accessible.

- If I had less debt I would be less concerned with my retirement fund benefits than I am now.

This question tried to ascertain the feelings of people in the presence of debt. Results were mixed with no dominance in agreement or disagreement.

This question will be further analysed below using the Chi Squared test.

- If I lose my job I should be allowed to cash in my retirement fund savings.

With 58% of people in the positive as regards to this question we note that people are mindful that retirement fund benefits are an avenue to consider when hardships associated with job losses arise.

We have seen that Treasury (2012) is trying to slow the use of withdrawals of funds by introducing a retirement withdrawal salary while people are unemployed. This consideration is supported by the researcher. In addition though, could an individual's qualified creditors be paid directly from the fund? This would ensure that even greater, appropriate use of funds is achieved.

- It should be harder for me to access my retirement fund benefits when I change jobs

Half of the respondents agreed with this notion. This too supports the views of Treasury (2012) who propose that the default option on withdrawal is preservation and that people only be allowed to access their funds after have seen an advisor.

35% of people disagreed with the statement. In hindsight, an option should have been given to those who disagreed so as to determine why they felt the way they did. This would have at least helped understand their reasoning.

#### 6.1.4.2 **Summary**

While the sample respondents may have an element of bias, the insight gained from the respondents as regards to accessing retirement fund benefits largely support the proposals provided by Treasury (2012) and indicates that the considerations are in line with what people require and/or find acceptable.

However, included in this group of respondents, were those who had opinions which contrast some of Treasury's proposals. This may require further investigation so as to understand their views and thus be in a position to draft more inclusive proposals.

### 6.1.5 **Past and Future Behaviour?**

#### 6.1.5.1 **Analysis of results**

- What did you do with your retirement fund benefit from your previous employer?

The majority of members indicated that they either transferred their benefit to their new employer's retirement fund and/or a preservation fund. However, the most amounts of members opted to cash their benefits.

While bias in the type of respondents may exist, of interest is the number of members who transferred their benefit to their employer's fund. Could this be an alternative option to 'compulsory preservation funding', i.e. as

the same result of preserving funds may be achieved by saying that all funds must be transferred to a new employer's retirement fund following termination of employment, and that access to funds would only be granted if a member is not joining a new employer?

- If you cashed your benefit, what did you spend it on?

We see that most people spent their benefits on paying their bond. Is this a bad idea? Considering that bond repayments comprise one of the biggest expenditure items in most individual's budgets, a house is a physical asset and it is socially desirable that people own property, could we not postulate that assisting individual's to pay off their bonds faster would have a positive effect on how they subsequently spend their monthly incomes? Perhaps the need for credit would be alleviated?

The next biggest use of funds was for credit card debt. This is a problem. People save for many years and could find their savings wiped out by tax and credit repayments. If people are allowed to cash their benefits would this not support their desire to attain more credit as they would feel that they have a 'way out'?

Saving money privately was the next biggest use of funds. Why would individuals cash their benefits to save it privately, in effect paying tax at marginal rates and then saving the balance? Is the absence of an advisor as indicated above part of the problem?

Positive uses of funds included using monies to start a business and using it for both children's and personal education. Masilela, cited by du Plessis (2009) , indicates that these 'expenses' could be termed investments as the knock on effects could be beneficial. Could these somehow be channelled appropriately and perhaps lower taxes applied if 'qualified' institutions are used?

Lastly, other negative items include using funds to repay vehicle debt and spending on holidays. These are unacceptable use of funds in the writer's opinion. Cars are depreciating assets and travel is a luxury. Who carries the burden of, when old age is reached, of looking after individuals who

have squandered their retirement savings? The state, or perhaps future generations?

- Do you plan to use your retirement fund benefit if you change your job?

An overwhelming majority indicated that they would save their monies. While this is desirable, experience and theory shows that at the time of making a decision, inertia sets in and 'opportunity loss' aversion creates reflexive inaction. As mentioned previously, perhaps it would be desirable if individuals would be compelled to transfer fund's to their new employer's retirement funds. Could conditions of employment be that any accrued benefits be transferred to a new employer's retirement fund? The foundations of retirement schemes do lie with the moral obligation employers have towards their staff. Could it be argued that employers are abdicating their moral responsibility if they do not require members to transfer their monies into their fund, or at least play a role in ensuring benefits are transferred responsibly?

Using funds to start businesses may be socially desirable as we have heard time and again that small business and entrepreneurs can help in creating employment. When individuals use funds to attempt to start a business, that member takes on a risk and pays tax on cash withdrawals, yet the impacts of the risk taken by the individual has desirable social implications. Surely appropriate assistance and policy can be crafted that takes entrepreneurship into account and supports it accordingly?

#### 6.1.5.2 **Summary**

There are clearly a diverse range of items that retirement funds, when accessed prior to retirement, are used for. Some of these are inherently virtuous and some clearly undesirable, especially in context of the growth in debt to income ratios, and unsecured lending as indicated in the literature. Use of funds for virtuous items must be considered in terms of their social desirability. The arguments for the use of virtuous items will be robust and passionate. Surely policies can be put in place that offers appropriate support and reward

Use of retirement funds for undesirable items may merely be supporting and/or encouraging bad behaviour. How could government intervene to correct this behaviour? Is education key, or a paternalistic stance required for those who continue to demonstrate bad financial habits?

#### **6.1.6 Commentary**

The comments received show that many people are supportive of compulsory preservation funds; however they concede that where people lose their jobs then access to retirement funds should be allowed.

Comments were made regarding how the questions “opens your eyes” with regards to retirement funds. This resonates with Greenblo (2012) thoughts that the process of a national survey will not only identify what people want, but will also educate them in the process.

Some of the comments referred to paternalistic behaviour which they deemed undesirable and pointed out that it is the individual's problem rather than everyone else's who have paid taxes throughout their working lives. This alludes to individualism in contrast to collectivism. One wonders how a balance may be struck between these opposing ideologies which like it or not, is nevertheless present in our society.

A few comments were noted wherein views were expressed about whether or not government can be trusted to look after an individual's retirement monies.

The comment about being not able to grasp the concept of saving for retirement while they are young, and only do so later in life, supports the argument for compulsory preservation funds

## **6.2 Hypotheses**

For each of the hypotheses, two sets of hypotheses tests were done on the data provided. The first hypothesis could not reject the null hypothesis due to the Chi Squared stat falling within the region of acceptance. Thereafter the data was reviewed to see if any bias and/or data issues existed.

What was discovered was that there were many neutral responses in the data set. As a Likert rating scale was used, the neutral values were removed and positive responses i.e. agree or strongly agree, were combined. The same was

done with the negative responses. Similarly on the question of what was done with retirement benefits when changing jobs, the responses included cashing out a withdrawal benefit and the similar answers of transferring to a new employer's fund or preserving the monies. Each case of the latter thus amounted to preservation, albeit in different forms. These were also combined.

The resultant data sets were thus brought down to two 2 x 2 matrices. The interpretations of the results are discussed below.

### **6.2.1 Hypothesis 1**

The hypothesis herein is that individuals wish to be able to cash in their retirement fund benefits when they change jobs when, again, debt is of concern.

The null and alternative hypotheses are as follows:

$H_0$ : An association does not exist between people who have cashed out their withdrawal benefits and who also have the burden of debt

$H_1$ : An association exists between people who have cashed out their withdrawal benefits and who also have the burden of debt

The Chi Squared stat = 4.38 and is > the Chi critical value of 3.84.

The resultant p value is 0.036 which is below the 5% significance level.

Therefore, we reject the null hypothesis  $H_0$  in favour the alternative  $H_1$ .

The conclusion to be drawn is that there is an association between people who have cashed out their retirement fund benefits and who also have the burden of debt.

We therefore assert that the presence of debt influences an individual's decision when it comes to deciding whether or not to cash or preserve his or her monies. The implication of this is that if policy measures can be put in place that addresses levels of debt, then people would be more like to preserve their retirement fund benefits when they change jobs.

### **6.2.2 Hypothesis 2**

The hypothesis herein is that individuals wish to be able to cash in their retirement fund benefits when they change jobs when, again, debt is of concern.

The null and alternative hypotheses are as follows:

$H_0$ : An association does not exist between people who want to be able to cash out their withdrawal benefits and who also have the burden of debt

$H_1$ : An association exists between people who want to be able to cash out their withdrawal benefits and who also have the burden of debt

The Chi Squared stat = 5.19 and is > the Chi critical value of 3.84.

The resultant p value is 0.023 which is below the 5% significance level.

Therefore, we reject the null hypothesis  $H_0$  in favour the alternative  $H_1$ .

The conclusion to be drawn here is that individual want to be able to use their retirement fund benefits because they have debt. Thus, it maybe asserted that any retirement reform proposals will be contested where there are high levels of debt present as is the case in South Africa at present.

### **6.3 Conclusion**

The research objectives have been met with the above analysis.

## **7 Conclusion**

### **7.1 Findings**

Retirement fund reform was proposed in 2004. Since then no action has been taken due to the complexities, technicalities and criticism levelled at it. Nonetheless, the proposals provided by the reform are necessary if retirement benefits for all South Africans are to be enhanced.

A key component of the retirement reform is compulsory preservation funding. While it appears to be a new concept it can claim to be a key component in South African history. Preservation funds were the catalyst for the strong labour movement we have today. In the 1980's when compulsory preservation funding was proposed it caused major unrest and perceived negativity. Based on the division that existed in the country at the time, the reaction may have been abundantly justifiable. Workers at the time did not receive their share of employer contributions to the DB funds that existed at the time. Eventually this culminated in a mass conversion from DB to DC schemes. This has been the most significant change to retirement funds in recent times.

In 2004 Retirement Fund Reform was proposed which was aimed at providing broader social benefits to the countries citizens. A key component of the reform included, once again, a proposal to make compulsory the preservation of retirement benefits when an employee terminates employment. This has again begun to be a contentious proposition. A strong argument against retirement funding preservation is that people have immediate needs which outweigh future needs.

In the interim, withdrawal rates on retirement funds now exceed contributions to retirement funds. Increased job mobility and job losses exasperate the rate of withdrawal from retirement funds. Roughly 70% of benefits are taken out in cash. The effect is that the time to save is being reduced. In contrast to the erosion of benefits due to high costs over the lifetime of savings, the loss of time due to starting from scratch each time a benefit is cashed out is probably more significant in reducing retirement benefits.

While reform is being considered, we see that household savings levels are being adversely affected by the ubiquitous range of financial products on offer to people. This has resulted in escalating debt to income levels. Consumption has an inverse relationship to saving. The implication therefore is that growing debt



levels dampen an individual's capacity to save. On the other hand, the vast majority of South Africans have a culture of consumerism. They want things immediately. The injustices of the past and state welfare policies fuel a feeling of entitlement. Thus government is faced with having to compete with two additional elements in trying to implement its reform proposals: the rise of debt and a disregard for savings.

How then does the situation get corrected? Communication with all stakeholders is seen as an important element for the successful acceptance and implementation of any proposal, especially one concerning retirement reform which affects directly or indirectly, almost every single citizen. As a first step, this research has attempted to identify what the views of individuals are with regards to the context of compulsory preservation funding.

Some of the key results and learnings from the survey included the following:

1. We see that people do have a willingness to save for the long term and also feel that their incomes will increase in the future.
2. They are of the opinion that retirement fund costs are high and retirement fund offerings are reasonable. Perhaps as part of retirement reform proposals, cost reductions should be used as an incentive?
3. People want to be financially independent and do not want anyone looking after them in their retirement.
4. A high proportion of people felt they were financially responsible.
5. Many people did not see an advisor when they changed jobs. Do high rates of cash withdrawals and lower fee scales deter consultants from wanting to help members preserve their money? If so, what can be done about it?
6. When changing jobs are more willing to preserve monies in contrast to if they lose their job. Changing jobs should be a reason above all else for compulsory preservation funding.
7. Many people transfer their benefits to their new employer's provident fund. Could employer moral obligations towards their employees be strengthened by including them (employers) in the process, i.e. let a new employer ensure that monies are transferred or preserved.
8. Could funds being withdrawn out of the system be channelled for the individual's convenience into 'qualified' items such as bond repayments or education? This could have the effect of assisting people with paying off

their bonds faster, thus leaving them with increased disposable income that could be used to stem the abuse of credit.

9. Lower taxes for withdrawals that are channelled into personal, socially desirable, 'investment' type expenses such as education and start-up funds for small businesses?
10. A national referendum as per Greenblo (2012) could determine what the people want and as a side effect would increase awareness and improve education.

The survey results were also used to establish whether or not the presence of debt was associated with members who withdrew their monies in cash, and also with those who require access to their funds when they terminate employment. The findings proved that there was indeed an association between debt and an individual's behaviour and needs.

## **7.2 Implications**

Compulsory preservation funding is a debatable matter. Not preserving retirement benefits takes time to save away from an individual. This lost time creates potentially larger reductions in retirement fund values relative to erosions due to associated costs.

Challenges exist directly and indirectly. We know that the direct opposition is the present day needs of members. Indirect competition is the prevalence of debt. Policy makers need to have a more robust approach to dealing with the complexities and stakeholders affected by the reforms.

## **7.3 Recommendations**

Ways of getting public opinion need to be explored. Their opinion is necessary for any acceptance of proposals.

The NCR and Treasury should together tackle growth in debt and the resultant low levels of savings.

Mechanisms need to be devised to channel retirement funds that flow out of the system into qualified recipient accounts.

## **7.4 Future Research**

Considerations for future research include the following:

1. Is there a role for a retirement fund payment provider that channels funds in the form of salary payment into appropriate and qualified 3<sup>rd</sup> party accounts?
2. What is the best way to give the public a voice so that their collective voices could be heard?
3. Should tighter lending controls be placed upon unsecured loan providers?

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# Appendices

## Appendix 1

Retirement Fund Research

<http://www.formstack.com/landing/Research-Retirement>

GIBS MBA 2012

### Research Topic: Access to Retirement Fund Benefits When Terminating Employment

Proposed legislative changes by government (Retirement fund reform) may make it compulsory for individuals to preserve their retirement fund monies when they terminate employment in order to reduce leakage in the build up of retirement fund values. The purpose of this research is to understand the needs, opinions and behaviour of individuals regarding their access to retirement fund benefits on termination of employment prior to retirement.

By completing the survey, you indicate that you voluntarily participate in this research. You can withdraw at any time without penalty. There are no right or wrong answers, so kindly answer as honestly and as openly as possible. Your name will not be recorded anywhere in the survey. All data will be kept confidential.

If you have any concerns, please contact me or my supervisor. Our details are provided below.

Thank you

Clinton Reddy MBA Student 082-880-4040 czr1803@gmail.com	Johan Lamprecht Research Supervisor 083-262-7244 johan.lamprecht@yahoo.com
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### General

How Old Are You _____	Gender _____	Location _____
Ethnicity _____	Marital Status _____	Education _____
Employment _____	Industry _____	Monthly Income/Salary _____
How many full time jobs have you had? _____	How many years have you been with your current employer? _____	My Retirement Fund Value _____

### Agree or Disagree?

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
If I lose my job I should be allowed to cash in my retirement fund savings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If I change my job I should be allowed to cash in my retirement fund savings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If I resign and want to start my own business I should be allowed to cash in my money	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If I want to settle debt I should be able to cash in my retirement fund money	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If I want to purchase or upgrade my house I should be able to cash in my retirement fund money	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It should be harder for me to access my retirement fund benefits when I change jobs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I should be able to cash in my retirement fund money before retirement for travel and entertainment expenses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I should be allowed to cash 100% of my retirement fund benefit if I change my job	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I should only be allowed to cash a portion of the current benefit and save the balance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I must be compelled to save my full retirement fund benefit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

I need the advice and/or guidance of a financial planner to make responsible decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
When I left my last employer, a financial planner did not assist and/or try to contact me	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The government must be responsible for my retirement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
My children must look after me when I am retired	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I want to be financially independent when I am retired	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If I had less debt I would be less concerned with my retirement fund benefits than I am now	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I should spend less and save more	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The future is more important than the present	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I have faith that the someone else will look after me in retirement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I regret how I spent my previous retirement fund benefits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**If you cashed your benefit, what did you spend it on?**

- Not Applicable
- Settled vehicle loans
- Settled credit card debt
- Paid my bond
- Household improvements
- Spent it on a holiday
- Saved it privately
- Used it to fund a business
- Spent it on education - self
- Spent it on education - children
- Helped a family member/s
- Other:

Select the top 3 items.

	Very Good	Good	Fair	Poor	Very Poor
How would you rate your ability to save responsibly for the long term	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How do you rate the relevant financial advice you receive	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How do you rate your increases in earnings potential in the future?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
What do you think of retirement fund offerings in South Africa	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**What did you do with your retirement fund benefit from your previous employer?**

- I did not have a retirement fund benefit
- I transferred it to my new employer's retirement fund
- I transferred it to a preservation fund
- I cashed all of it
- I cashed a part of it and preserved a part of it

	Acceptable	Somewhat Acceptable	Neutral	Unacceptable	Totally Unacceptable
Government must make preservation funding compulsory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Accessing retirement funds to pay off debt is ok	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Everyone should rely on the state in old age	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are fees being charged on retirement fund products acceptable or not?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Share



**Do you plan to use your retirement fund benefit if you change your job?**

- No, I will save my benefit
- I will use it to pay off debt
- I will use it to start a business
- I will pay my bond and/or purchase a house
- Renovate my house
- Pay for my children's schooling
- Other:

Select the top 3 items

**Do you have any other comments regarding retirement preservation?**

Share