

Employee benefits industry set for significant change

The employee benefits industry will undergo significant change over the next few years, as the need to bring more people, including the lower income bracket, into the industry, is likely to result in a reduction in the number of service providers and funds. As a result, it is vital consumers take the time to speak to a financial adviser to ascertain how they may be affected.

That is the view of Pieter Cronje, director at the Financial Intermediaries Association of Southern Africa (FIA) and chair of its Employee Benefits Exco, who says one of the methods through which this may be achieved is the introduction of compulsory membership. "It is important that we begin to look at new measures to help increase the number of participants in the employee benefits industry and we believe that a central fund with compulsory membership is certainly on the cards."

"Depending on the model that is adopted by government, we may also either see a number of large umbrella funds and sectoral funds, or alternatively we may see an increase in the number of large 401K type funds where membership will be separated from employment."

Cronje says government has already issued a number of discussion papers proposing reforms to social security and retirement provision. "We have seen a number of legislative changes to the Income Tax Act to change the face of retirement provision and industry is already responding to the proposals from government on the reform, with a new drive to move smaller employers into umbrella arrangements."

He says the implementation of the new National Health Insurance (NHI) model is also expected to have an impact on retirement provision as it will reduce the amount of money a member has available for retirement savings, potentially changing the way retirement planning is conducted. "Currently, post retirement healthcare costs make up a large proportion of retirement savings; however, if that cost is provided for via an alternative vehicle then it can potentially be excluded from retirement savings. However, it is essential people speak to a qualified financial adviser to discuss their savings goals to ensure they can retire comfortably with adequate provision for healthcare."

According to the 2010 BENCHMARK survey by Sanlam Employee Benefits (SEB),

60% of pensioners have insufficient savings levels, with the result that 64% of these will be forced to cut back on expenses and 31% will have to work into their retirement in order to supplement their income.

Cronje says however that such surveys still only reflect the situation for members who are actually in the retirement savings net. "We know that coverage of the formal sector is more than 50%, but in the primary sector coverage is less than 15% and in the informal sector it is shockingly low at less than 5%."

"Until concrete plans are in place to force mandatory contributions, an ongoing and long term challenge for the employee benefits industry remains to educate people not yet in the retirement savings net on the importance of retirement savings and to motivate those already contributing on the importance of preserving retirement savings when exiting a retirement fund."

Cronje says the assistance a financial adviser provides is generally overlooked in the industry. "A qualified financial adviser is in the best position to educate those already in the net about the importance of preservation, and are likely to play a major part in the education drive."