


The Actuarial Profession
making financial sense of the future

Pensions, benefits and social security colloquium 2011
John Anderson



Outcomes based approach to retirement & other benefits

25-27 September 2011

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The objective of a retirement fund

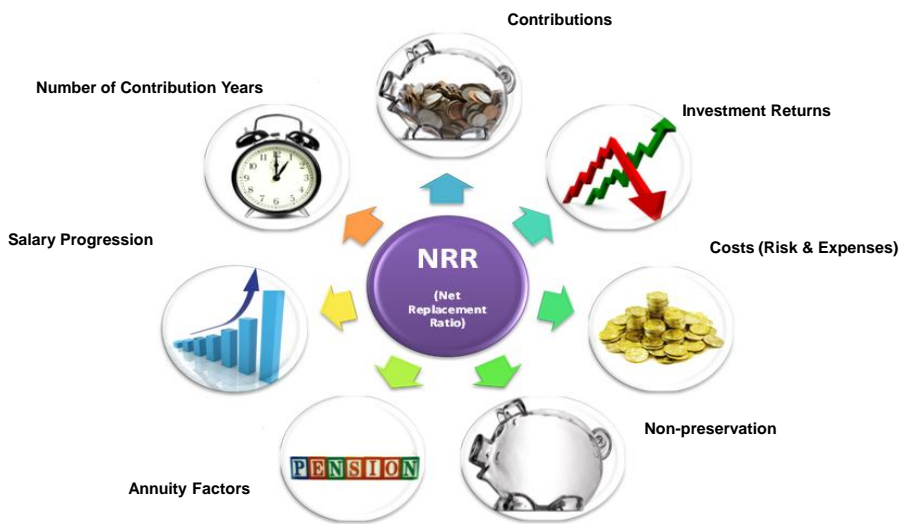
- Trustees need to understand the objective/purpose of their retirement fund
- This informs the strategies employed in the fund
- Objective is driven by the nature of benefit promise.



Defined Benefit Fund



Defined Contribution Fund



Once objective is set – all aspects of running the fund should 'objective cognisant'



Some evidence:
Are trustees concentrating on the right stuff?

Do you believe that it is important to
members' NRRs,
ting it and member behaviour?



So, the belief in the
importance of NRRs is there...
o the running of a fund

92%
However, has this translated
into good outcomes?
responsibility to look at these things

Source: Alexander Forbes Hot Topics, November 2010, Audience Participation Results

Understanding trustees' Role...

Actuary will provide input here

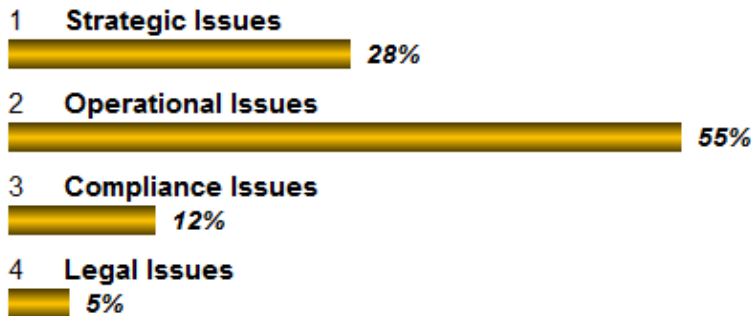
- Set a clear mission for the Fund
- Define a strategy (mechanisms) for meeting the objective
- To monitor the Fund's success in achieving the objective



Some evidence:

Are trustees concentrating on the right stuff?

Which of the following aspects do you spend the most time discussing in your Trustee meetings?



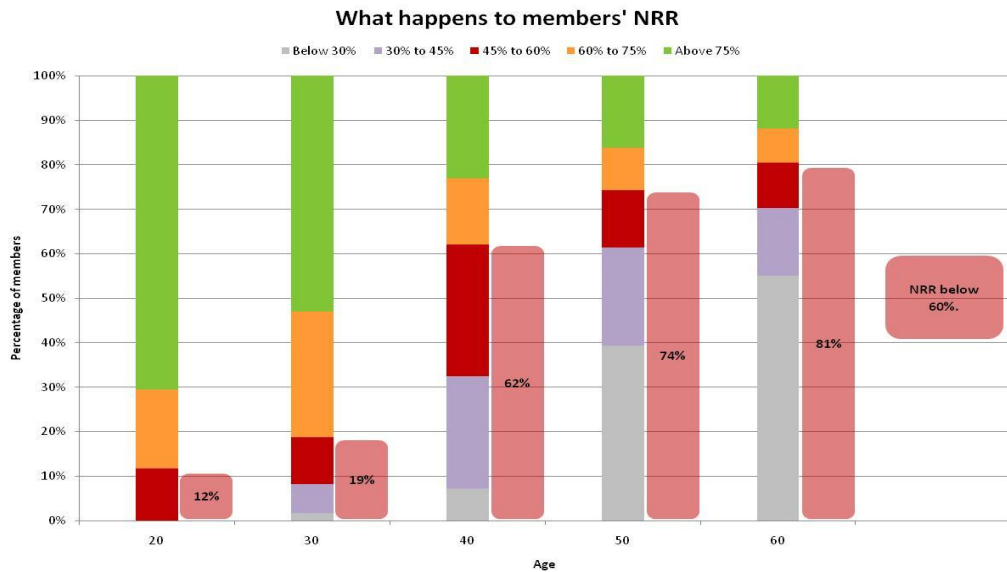
Source: Alexander Forbes Hot Topics, November 2010, Audience Participation Results

Moving to an outcomes-based approach

- Management of the fund should understand the importance of setting an objective for the fund that relates to the member outcome
- Strategic direction within the fund is crucial
- Implementing focused strategies to look at NRR components.



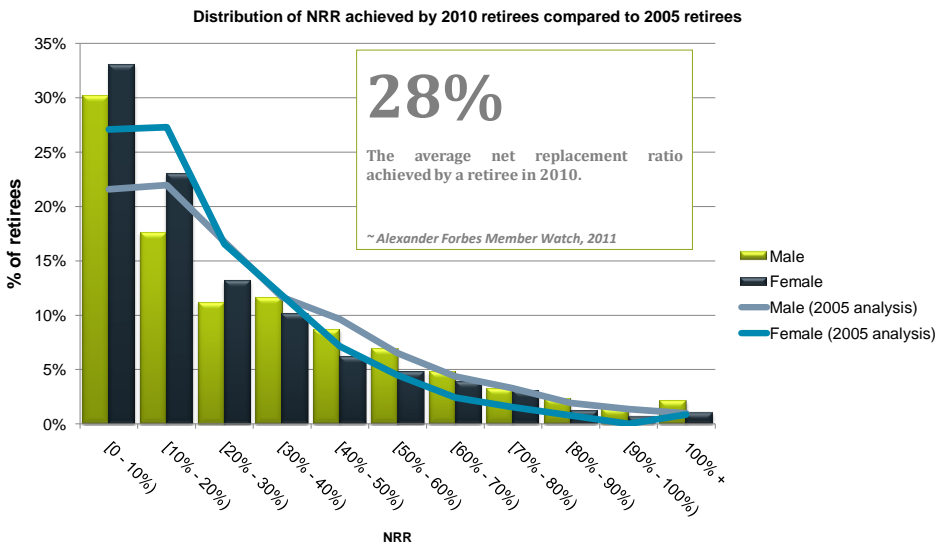
The results of not focusing on outcomes



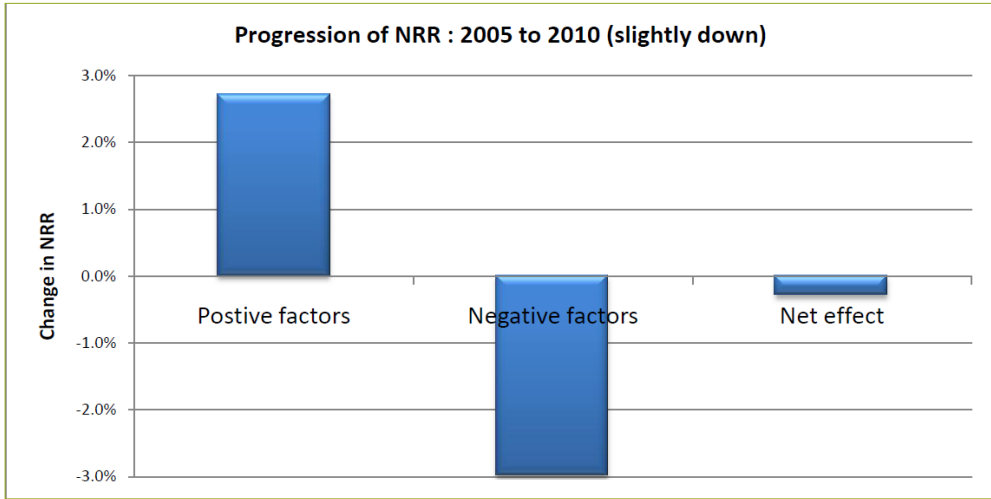
Our Observations of the current environment in South Africa...



Observations on NRR's achieved by retirees

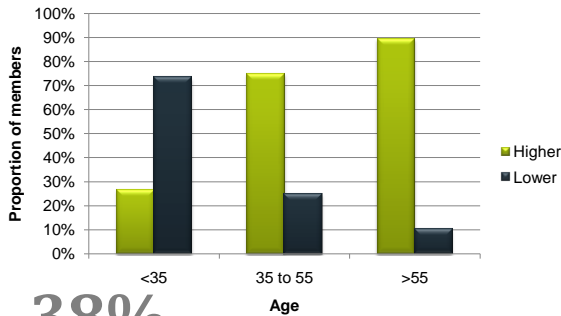


Reasons for change in NRR's achieved by retirees...



Observations on Contributions

Distribution of contribution rate selection (non-default)



38%

The proportion of funds that have contributions insufficient to achieve targeted 75% net replacement ratio at retirement.

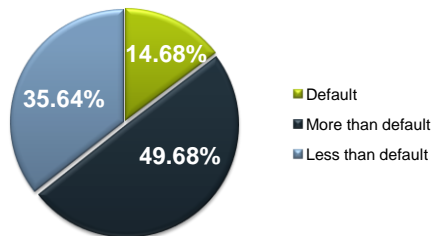
~ Alexander Forbes Member Watch, 2011

>70%

Proportion of funds with fixed contribution structure.

~ Alexander Forbes Member Watch, 2011

Contribution rate selection



NRRs over time

Age: 2001	Projected NRR: 2001	Projected NRR: 2011
30 year old	75%	???
40 year old	75%	???
50 year old	75%	???

- Invested in typical life-stage model

	Return
30 year old	14.1% p.a. (8.1% real)
40 year old	14.1% p.a. (8.1% real)
50 year old	12.8% p.a. (6.4% real)

NRRs over time...

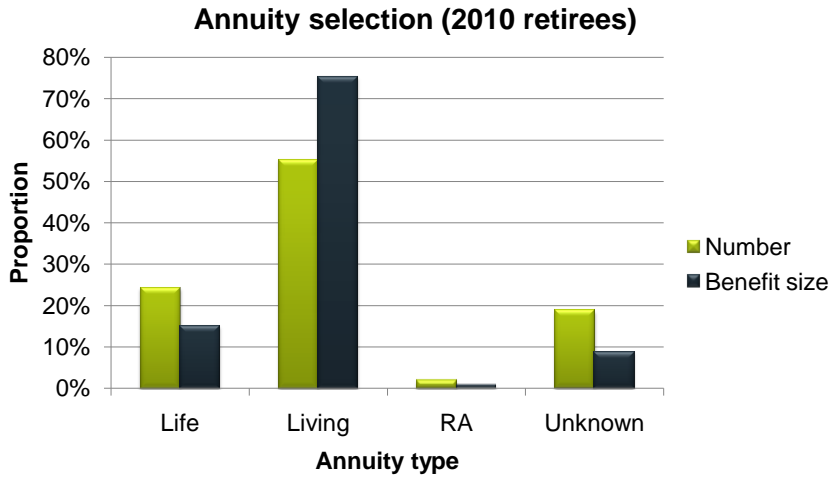
Age: 2001	Projected NRR: 2001	Projected NRR: 2011
30 year old	75%	63%
40 year old	75%	69%
50 year old	75%	67%

- Invested in typical life-stage model

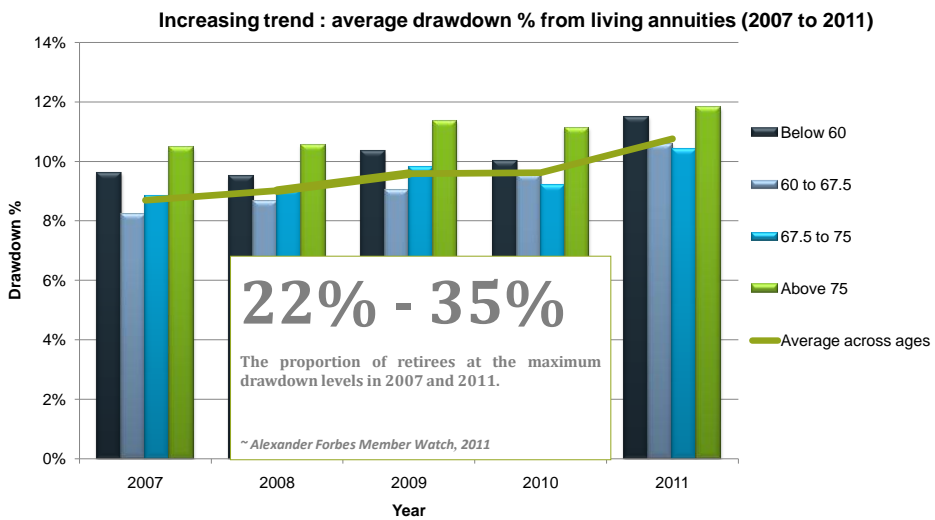
	Return	Salary increase
30 year old	14.1% p.a. (8.1% real)	11.1% p.a. (5.1% real)
40 year old	14.1% p.a. (8.1% real)	9.0% p.a. (3.1% real)
50 year old	12.8% p.a. (6.4% real)	8.5% p.a. (2.4% real)

- *Cost of retiring increased: Increased longevity and falling interest rates*
- *Assumes preservation*
- *Contributions unchanged as % of salary*

A popular choice!

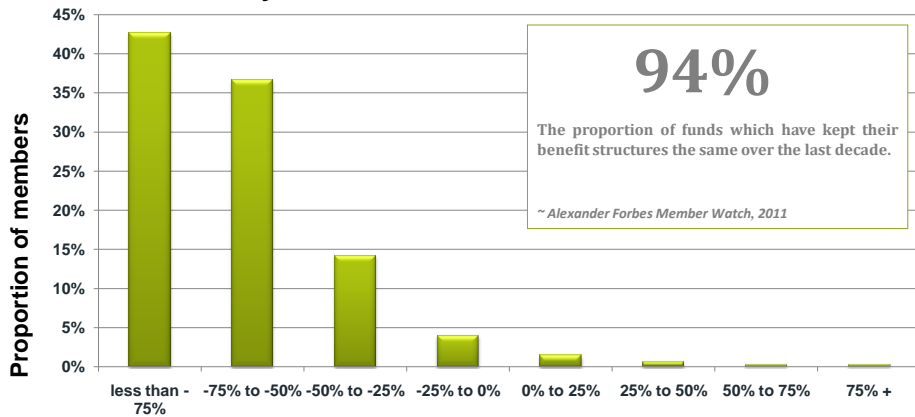


Shortening the lifespan of their savings



Death benefits

Analysis of death benefits vs benchmark need

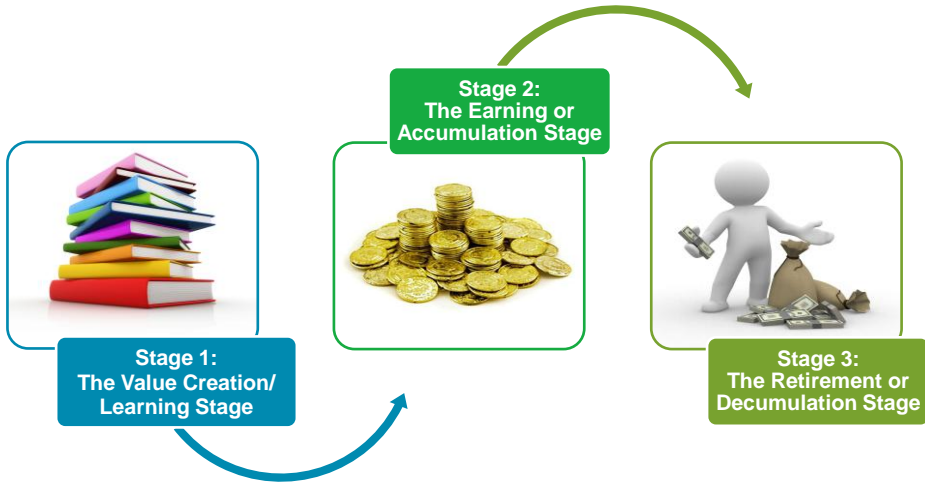


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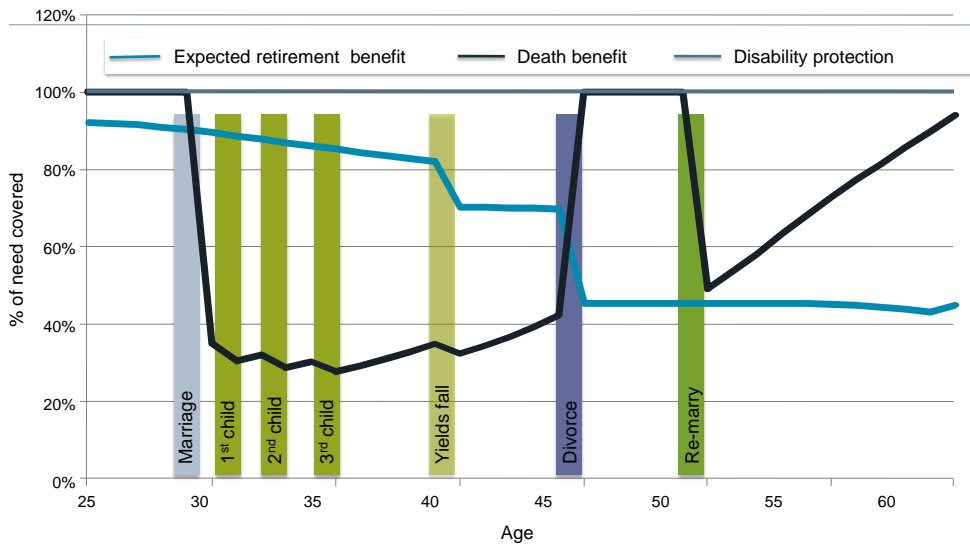
What is the role of the actuary in the DC environment?

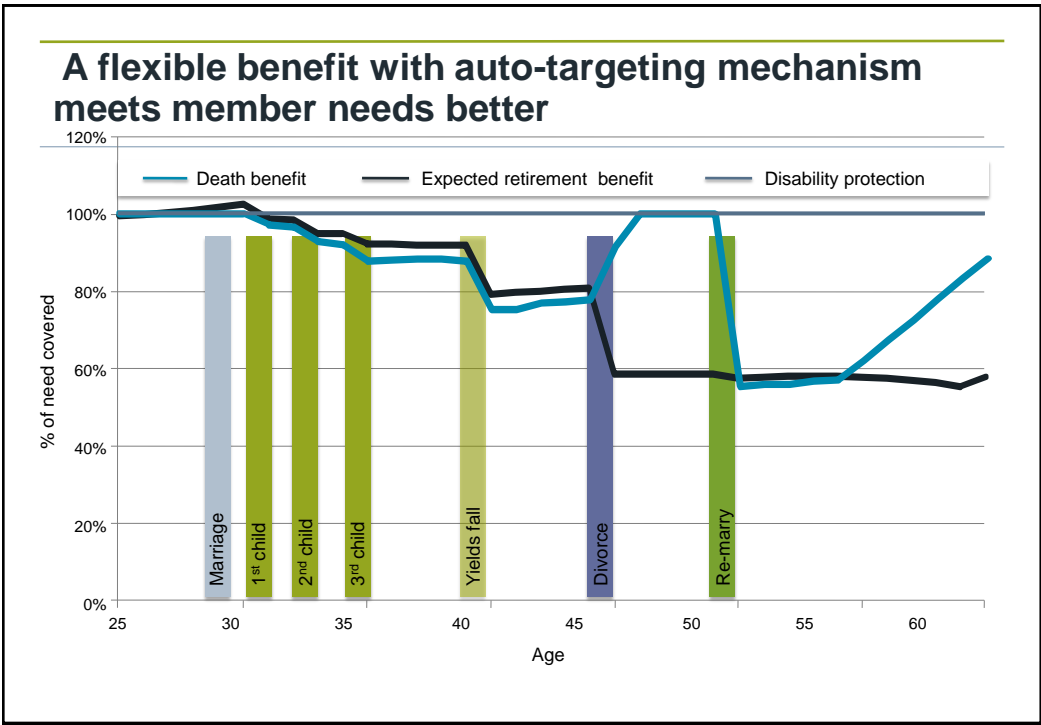
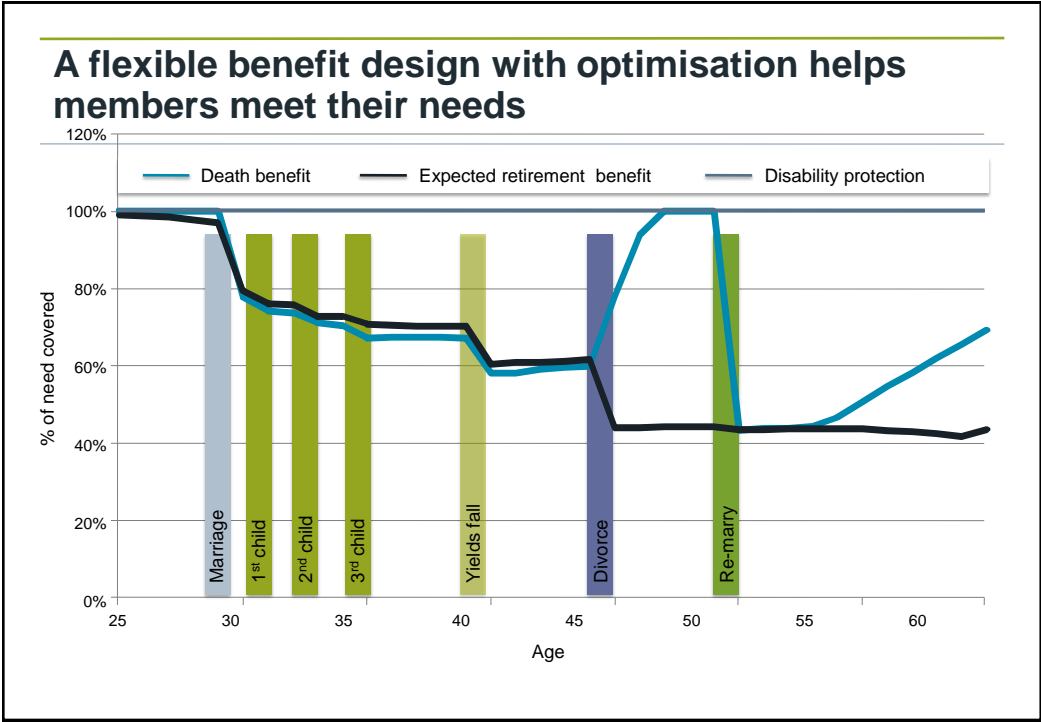


Consideration of the Lifecycle



A fixed benefit design affects members' lives





Actuaries working with individual funding plans



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

