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An ecosystem of advice, counselling and annuity strategies

The debate over whether the institutional sector will start to encroach on the retail sector is over. Only one question remains: To what extent will it do so?

This transformation has been driven by client behaviour, legislative requirements and the need for financial inclusion. Furthermore, the merging of the institutional and retail sectors is going to be accelerated when the 'Default Regulations' become effective on 1 March 2019. These regulations stipulate that, among other requirements, all retirement funds must create a trustee-endorsed annuity strategy, along with providing access to retirement benefits counselling services at least three months before members retire.

Each fund's annuity strategy would have to be appropriate to most of the members in their funds. Trustees

will have to rethink not only what products are available to members at these critical junctures, but also how members are serviced and advised. In short, funds will have to consider the following three aspects for their retiring members: Annuity products, retirement benefits counselling and financial advice.

Annuity products

There is an array of options for trustees to consider: The product can be a living annuity or life annuity, provided in-fund or out-of-fund. The risks that trustees have to consider for members in retirement are vastly different than while members are still in the accumulation phase, for example longevity risk and sequencing risk.

Annuity product providers have had to develop innovative solutions, such as institutional living annuities,

some of which use Smoothed Bonus portfolios for protecting against market downturns in the early years of retirement. However, the biggest impact would arguably be that funds are able to use their purchasing power to negotiate institutionally priced annuities that deliver meaningful improvements in the monthly income received by pensioners.

Retirement benefits counselling

The form that counselling will take has to be determined per fund. Funds have to ensure they actively implement a capability that provides members with accurate and understandable information that enables them to make better financial decisions, which is the intended purpose of the legislation. A response from some providers has been the introduction of Retirement Benefit Counsellors to the market. These counsellors will be able to have a human conversation in explaining the fund's annuity strategy.

Counsellors would not be able to assist members with all financial queries, in particular relating to providing financial advice. Counsellors should be trained to be cognisant of this distinction and refer members to financial advisers where necessary. Financial advisers could

leverage off the services provided by counsellors, both by serving a segment of the members traditionally not served, as well as collaborating with them for advice referrals. This enables financial inclusion as more members of retirement funds would have access to both retirement benefits counselling and professional financial advice.

Financial advice

Financial advisers will have to familiarise themselves with the unique annuity strategy approved by the respective retirement fund to which the specific member belongs. Institutional annuity products negotiated by the fund would generally be cheaper than their retail counterparts. However, institutional annuities may not be as flexible as retail annuities and the holistic financial needs of the individual need to be addressed. As such, advisers will need to have deep insight into each member's available institutional annuity strategy in order to provide appropriate advice at retirement that may ultimately combine the best of both worlds. This provides an opportunity for value to be added in the advice process and we anticipate that high-quality advisers will leverage this opportunity to provide meaningful advice at and through retirement.