5 WHAT DO OUR MEMBERS WANT?

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OVERVIEW

The data tells the story. There is clearly a problem with getting employees to engage with their retirement savings programmes. But we can only guess why that might be the case and what would change that outcome. To that end, we felt it was time we spoke directly to our members to gain a better insight into the real issues.

To answer those questions we first needed to understand how our members currently viewed their benefit offerings: how well these schemes address their most critical needs and what might have to change to make them more relevant to their wants.

WHAT DO SOUTH AFRICANS REALLY WANT?

What follows are the findings from the survey that we undertook with ReThink Africa to determine the answers to those questions. ReThink Africa is a youth-led, pan-African social enterprise focused on applying research to shaping the discourse on development issues in Africa.

Employee benefits typically provide an essential form of risk mitigation for employees. Specifically, these benefits target a discontinuity of income in response to retirement, disability, death and in some instances, retrenchment. Income discontinuity, however, is not the only financial risk that employees face over the course of their financial journeys. Emergency savings, housing and transportation demands, educational opportunities and health crises all perpetually compete for a share of our wallets.

As such, trustees have come to appreciate that when financial imperatives suggest that our members have greater priorities than retirement income, they will in many cases look to their retirement savings to fund those more urgent needs.

OUR JOURNEY TO THE RESEARCH QUESTIONS

Our three overarching questions:
Our study methodology incorporated three research techniques: online surveys, semi-structured interviews and focus groups. We will discuss some of the insights and findings from the process in this chapter. We then identified and grouped the different lines of enquiry into three overarching questions which would inform the design and administration of the different research instruments.

RESEARCH QUESTION 1

What do people really want, and what can the financial services industry and other role players do to assist individuals and households along their financial journeys?

RESEARCH QUESTION 2

Is it really meaningful for the average South African to focus so doggedly on retirement savings when there has been so little focus on an individual's overall financial journey? Could there be other ways to rethink this?

RESEARCH QUESTION 3

What might people be prepared to save for over the long term, and what would incentivise them to do so? What other key aspects beyond monthly income could employee benefits fund?

Limitations

Our research process began with the **online survey** administered to hundreds of employed South Africans whose employee benefits were currently being administered by the Alexander Forbes Retirement Fund (AFRF). Since the aim of the study was to capture as diverse a set of insights as possible, we also conducted a number of **focus groups** and **semi-structured interviews** with self-selected members. The sample size of respondents to the survey and focus group naturally suggests certain limitations. Despite these limitations, we feel that the research process unearthed many important insights.

Geographic

In the case of the survey, focus groups and semi-structured interviews, there is a strong provincial bias to the responses. The overwhelming majority of respondents to the different research methods were based in Gauteng. This province is the most prosperous, with exposure to primary, secondary and tertiary sectors. According to the 2011 census, the province experiences high levels of inward migration, with half the population having been born outside the province. This may be one of the factors contributing towards a particular urban and Gauteng-focused bias. The online survey did, however, have a few respondents from other provinces, in particular a handful from the Eastern Cape, Limpopo and Mpumalanga.

Demographic

The survey attempted to mirror the key demographic markers of race, gender and income. The figures of the targeted sample, however, do not wholly reflect the working population of South Africa. For example, with regard to race, the working population demographic markers are as follows: black (73.8%), white (12.4%), coloured (10.6%) and Indian or Asian (3.2%). However, our survey sample had an overrepresentation of white, Indian and Asian and an underrepresentation of black and coloured respondents.

Population group	South African working population	Survey response rate
Black	73.8%	57.8%
White	12.4%	33.9%
Coloured	10.6%	3.0%
Indian or Asian	3.2%	5.2%

http://**Survey...**

51.75% MALE

48.26% FEMALE

Gender bias

We had 51.75% male respondents, and 48.26% female respondents. This half-half gender split almost mirrors the same trend in the Alexander Forbes Retirement Fund Member Watch™ dataset, which, in turn, reflects the same gender split in the general population.

20-29+ YEARS OLD

Age bias

About 40.4% of respondents were between the ages of 20 and 29, while 1% of the respondents were between the ages of 30 and 39. The 40–49 year age group made up 16.5% of the survey respondents. About 10% of the respondents were between the ages of 50 and 59 years and 2.2% between the ages of 59 and 65, while 1.7% of the respondents were above the age of 65.

While the data indicated a strong bias towards respondents in the 20–29 age category, this may be fine when compared to the overall population as South Africa has a relatively young population. Note that this means a large portion of respondents are still at the early stages of their financial lives.

Income bias

Another specific bias in the data was income level. The dataset of our survey demonstrated a bias towards those in the R25 000–R39 999 per month total income bracket. This would place them in the middle and upper middle class category in South Africa. **The AFRF dataset median is somewhere between R6 000 and R9 000 per month.** This bias may suggest that access to the online survey was more readily available to higher income members. This bias was later addressed by including a more representative focus group composition.

SURVEY RESULTS

Throughout the process we've worked to respond directly to our three overarching research questions.

RESEARCH QUESTION 1

What do people really want, and what can the financial services industry and other role players do to assist individuals and households along their financial journeys?

Survey insights: In responding to this question, we posed two questions. The first one was an introductory question probing how important long-term savings were to respondents. Close to 80% indicated that long-term savings are important to them, with only 4% of respondents indicating no importance.

Q1 How important are long-term savings to you?

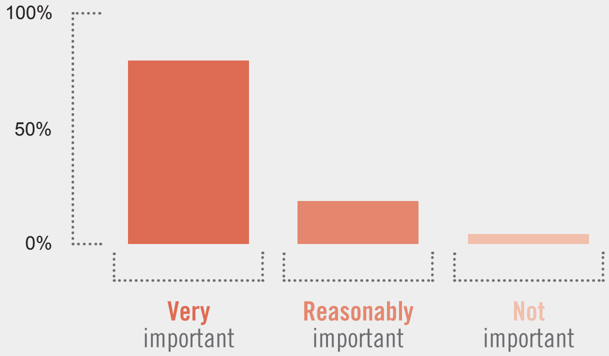
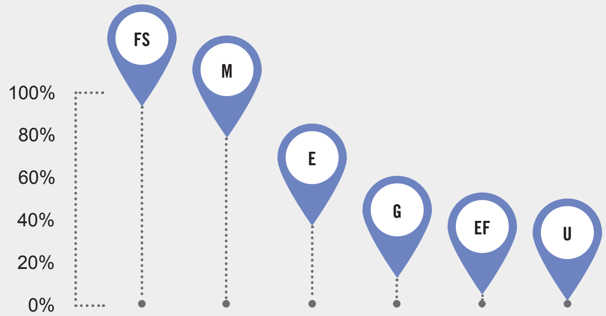


Figure 1: How important are long-term savings to you?

The second question: Who did the respondents feel would be best placed to provide a savings programme that resonated with their financial life priorities?

Q2 Who do you think would be the most effective at providing a savings tool or programme?



FS: Financial services
M: Myself
E: Employer
G: The government
F: (Extended) family or friends
U: Union

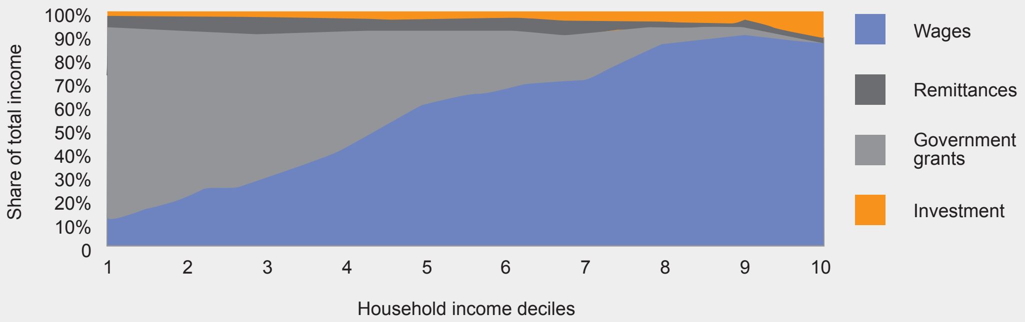
Figure 2: Best stakeholder to facilitate a long-term savings programme

The fact that financial services companies placed first was probably not unexpected given that individuals are probably accustomed to seeing the financial services industry occupy this space. The fact that the government, employers and extended families received a lower percentage than initially anticipated and that trade unions received no votes was somewhat less expected. This last result may simply be a function of the fact that the members being surveyed mainly belong to employer funds as opposed to union funds.

Focus group insights

- **Informal stakeholders:** There was a strong emphasis on the **role of informal institutions, networks and relationships as key access points for financial services**, especially for those often overlooked (for a range of reasons) by formal financial institutions. While financial inclusion may be slowly increasing to 87%, there appears to be a parallel increase, now 36%, in individuals who will use both formal and informal financial services to address their financial needs[1].
- **Role of employer-provided benefits:** Many participants emphasised the importance of employer-provided benefits, even though there might be minimal engagement with these members over the course of their financial journey. An important message here is that we potentially underestimate **the importance of employee benefits in the ultimate choice of an individual to work for a particular employer, especially for those in middle and upper income jobs** who may be at an advanced stage of their careers (not necessarily management or executive stage).
- **The importance of an income in the absence of assets:** Many of the participants who would be termed members of the 'black middle class' emphasised the point that the historical barriers to asset acquisition have meant income, and the protection thereof, is an even more critical concern to them. As the graph from the National Income Dynamics Survey suggests, once incomes start to exceed R6 000 a month, the employer becomes the driving force in the financial well-being of most individuals.

Shares of total income by household decile



Source: Arden Finn[2]

Our survey, focus group and interview insights then turned to the question of what kind of long-term savings would people be prepared to commit to.

RESEARCH QUESTION 2

Is it really meaningful for the average South African to focus so doggedly on retirement savings when there has been so little focus on an individual's overall financial journey? Could there be other ways to rethink this?

RESEARCH QUESTION 3

What might people be prepared to save for over the long term, and what would incentivise them to do so? What other key aspects beyond monthly income could employee benefits fund? For what else, other than retirement savings, are people willing to save? **Survey insight:** In responding to the above questions, we asked a counter-factual question that probed what would incentivise respondents to take up long-term savings. This question not only indicated what mattered to our sample along their financial journeys, but also moved away from an insistence on long-term saving as a risk-hedging measure alone. It also explored how people hedge for their own risks in ways that differ from traditional financial services approaches and methods.

1 FinMarkTrust, 2016
2 Finn, 2015

The survey probed what people would view as incentives to joining a long-term savings programme. Respondents appear to value having some freedom to what they can do with their earnings, ranking **no restriction, but also no tax or matching benefit** higher than the other alternatives of receiving **a matching contribution from the government or employer and a tax break (deduction)**. What was less clear is whether respondents had considered the cost of that freedom.

"I would be interested in committing to a long-term savings programme if I could also use it to:" Rank each option by importance.

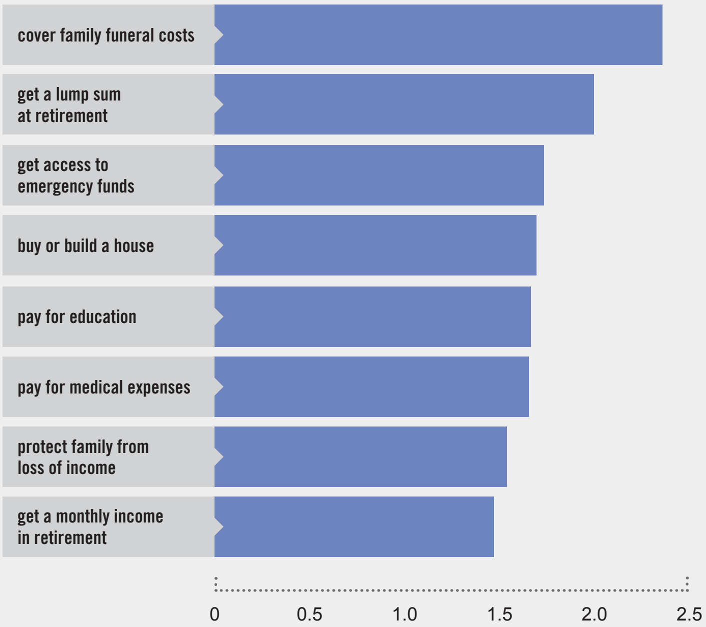


Figure 3: Priorities for long-term savings

The numbers on the horizontal axis represent **weighted averages** of the responses. From the data we can see that people place greater emphasis on **covering funeral costs, getting a lump sum at retirement** (probably to pay off debt), **accessing emergency funds**, **paying for medical and education expenses** and **buying a house**, than getting a monthly income in retirement, which ranks lower than all other alternatives. What's notable here is that, while saving for retirement ranks second in importance, deriving a monthly income ranks significantly lower. Once again, this brings the focus back to the challenge of asset acquisition earlier on in an individual's life and the necessity of the lump sum to fund that need.

"I would commit to a long-term savings programme that provided:" Rank each option by importance.

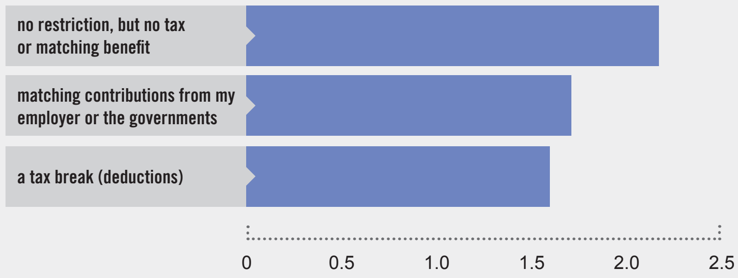


Figure 4: Incentives to use long-term savings

Focus group and interview insights: The focus groups and interviews placed relative emphasis on the last two questions. We probed whether the focus on retirement funds was the priority, or whether other aspects of South Africans' financial reality required greater attention. We also sought to understand how the intended reforms would be received by our sample, and what impact they felt these would have on different income, race and gender categories.

Why did we do this?

We felt this would be a crucial entry point to a broader discussion of what would incentivise long-term saving, and what could be changed about the current benefits framework that would create these incentives. We also interrogated what key aspects of our sample's financial journeys had a bearing on how the financial services industry, and in particular the benefits industry, responds to its greatest asset: its members (current and potential).

- **Incentives:** Similar to the survey, access to emergency funds, acquisition of housing and a lump sum at retirement fared stronger as choices of incentives for long-term savings than an assured monthly income. For instance, the blue-collar 'working and lower middle class' participants indicated their wish to buy property during and at key points along their financial journeys. However, because asset acquisition has previously been beyond their financial reach, they often use the lump sum for big-ticket items that require significant financial outlays: housing, debt settlement, renovations, tombstones and settling education fees in advance.

The middle class segment placed an emphasis on savings and investment, alongside another factor: the ability to access emergency funds. This shows us how important financial stability is as a precondition for most individuals.

- **Reform biases:** It became clear that respondents felt the way the government designed retirement fund reforms demonstrated a particular 'middle class bias'. Why do we say this? The assumption inherent in the government's approach is that retirement benefits should provide a regular income beyond working age – a premise of the current retirement benefits system. However, blue-collar respondents tended to see retirement funds as the income that would allow them to get their heads above water while also covering aspirational expenditures that potentially contribute to social mobility.

  The financial services industry places a primacy on replacement ratios as a key measure of success. That target ratio is often around 70% or more. This further emphasises the point that securing a replacement income after retirement should take precedence and suggests there is an assumption that all other expenditures (asset-focused, debt settling and aspirational) have all been completed during each member's financial life before retirement. This is clearly not the case.

- **Perceptions and mistrust:** Much of the work of incentivising long-term savings requires not only understanding what people want, but also what they don't want. We probed respondents on what perceptions, feelings of mistrust and negative user experiences may be preventing them from prioritising long-term savings. When respondents compared the formal benefits and risk frameworks provided by the financial services sector to alternative informal arrangements, many participants highlighted that it was often unnerving that they had to "jump a lot of hoops to access funds".

  The roots of mistrust also relate to an often articulated perception that many consumers have (especially those in the low-income segment). In acquiring long-term savings and insurance products (including funeral insurance and investment products) they run the risk of "potentially losing everything if my employment situation changes", as one focus group participant shared. The same sentiment emerged in many of the semi-structured interviews, indicating the need for greater vigilance and education around provisions for continuity in instances where income from employment is no longer available and premiums and contributions cease.

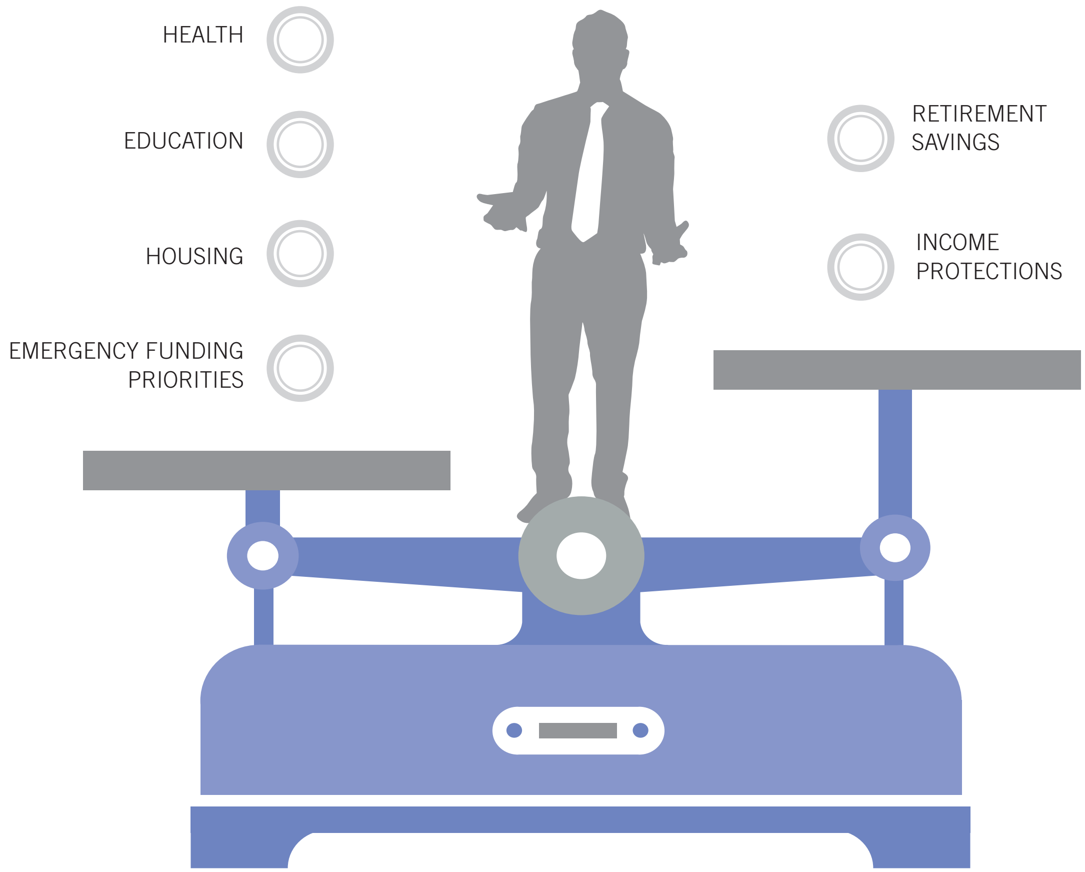
- **Innovation:**

  In responding to the question of whether we should focus so doggedly on retirement and long-term savings when we haven't solved for the immediate demands of South African consumers, our focus groups and interviews revealed some interesting insights.

  One of our interviewees from a black-owned fund administration company argued that for some of their clients (mostly low-wage employees in key service sectors such as retail, cleaning and security services), retirement benefits were a misplaced focus. This service provider has in fact provided, in line with other formal financial services companies and the Pension Funds Act, pension-backed loans for the acquisition of housing. The suggestion that was made was that, rather than solely focus on ensuring an income after retirement, policy reforms should consider how the other parts of the benefits framework might be used to help people acquire assets, especially housing. One of the major drivers of poverty and financial instability is the lack of assets in low-earning communities. The resources people hold in their employee benefits could easily be used to help them acquire these.

Where to from here?

At the start of the research process, we sought to better understand what people really wanted from their financial journeys. We also wanted to find out which stakeholders should be tasked with which aspects to ensure individuals and households achieve financial well-being.



Coordinating social protection interventions

All participants in the research process appreciated the importance of long-term savings. However, importance doesn't often imply immediate necessity or optimality, and for many South Africans it may be important but not feasible under their current circumstances to prioritise long-term savings.

What's needed to turn this situation around?
A starting point could potentially be to understand that the expenditures that are often associated with cashing in employee benefits are often social protection-related expenses, or expenses geared towards acquiring assets or capital (financial, human or social). This implies that many of the prevalent gaps in the current benefits framework can be plugged with a collaborative approach that aims to make the South African social security system a seamless and efficient model with complementary commitments from different stakeholders, including employers, the financial services industry and associated government agencies.

Such an approach first requires a common objective before engagement can be productive.

If we recognise that housing, education, health and emergency funding priorities compete directly with retirement savings and income protections, then how could the public and private sectors provide a coordinated attack on addressing those issues? We could envisage a situation where the public sector could provide the absolute floor protections across that range of priorities and the private sector could, in turn, provide those elements that enhance social mobility and asset acquisition. For example, this could mean greater coordination in providing housing and education for children of low-income employees, over and above the minimum floor of benefits provided by the state.

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Shifting focus from an industry and policy perspective

A regular monthly income after retirement appeared to be relatively less important in the participants' reflections throughout all the research engagements. This is not to say that a regular income is not important, but it ranks below other important expense items that individuals prioritise along their financial journeys. Should we regard this as myopic? We think not, given that securing a lump sum ranked second in the array of priorities. Once again, the issue was less about long-term savings and significantly more about how these savings could be best applied.

This has implications for two sets of stakeholders: the financial services industry and policymakers. Is there a need to prioritise interventions that link the provision of much-needed social security interventions, such as housing and education, alongside the commitments of employers and the financial services industry?

On the part of the financial services industry, there is potentially a need to transition towards a holistic set of measures in our assessment of fund member financial health that goes beyond simple replacement ratios. We need to start assessing how effectively members are navigating the whole financial journey. This approach will demand that we equally start paying attention to aspects of clients' financial lives that go beyond maintaining their current standard of living, especially if their current standard of living lies far below their envisaged standard.

Holistic behavioural models and approaches

We emphasised in *Benefits Barometer 2015* the importance of understanding the sociocultural drivers to financial decision-making for clients in a diverse country like South Africa. Our focus groups in this study reaffirmed a serious need for the financial services industry to reconsider how it assesses the overall worthiness of an individual client. Cursory credit checks, bank statements and risk profiles don't always tell the service provider the entire picture. This in turn influences the outputs (the amount a member qualifies for, if they're applying for a loan or risk protection product for instance). There are any number of aspects, in particular of poorer and low-income households, that the current system often overlooks, including extended family needs, relationship and the extent of obligation, 'black tax', asset deficits, collective or household budget commitments, cultural spending (rituals, lobola), and engagement with informal sector savings and credit networks, institutions and arrangements. We would recommend that existing risk and behavioural assessment measures probe more creatively for information on these aspects. This means that there is a serious need to structure product offerings that are more responsive to sociocultural contexts.

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CONCLUDING THOUGHTS

In our brief three-month research process we worked to answer the question, **'What do people really want?'** In this chapter we've outlined some of the sub-questions and looked at the methodology we deployed in the research, as well as some of the limitations. Despite these, we felt there were very strong insights from the research that provide us with the basis for a research agenda aimed at achieving stronger synergies between different stakeholders and across the benefits and social security landscape. Such complementary commitments between these stakeholders aim to give realistic meaning to the things that people indicated they wanted from the benefits industry.

The process also allowed us to explore some of the key gaps in the industry, offering brief recommendations for consideration, by including the voices of individuals at the heart of the matter. We believe this can provide valuable input into reflections on policy reform aimed at creating a more efficient, sustainable and empowering benefits and social security system.

More importantly, these insights are what inform the proposals we set out in Part 2.