



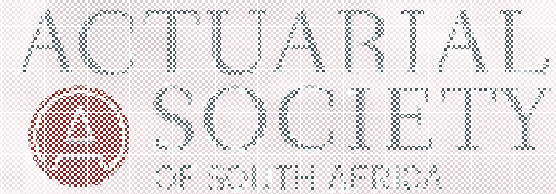
# **Impact of global economic turmoil on the retirement fund industry**

## **The consulting perspective**

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Alexander Forbes Financial Services

# Agenda



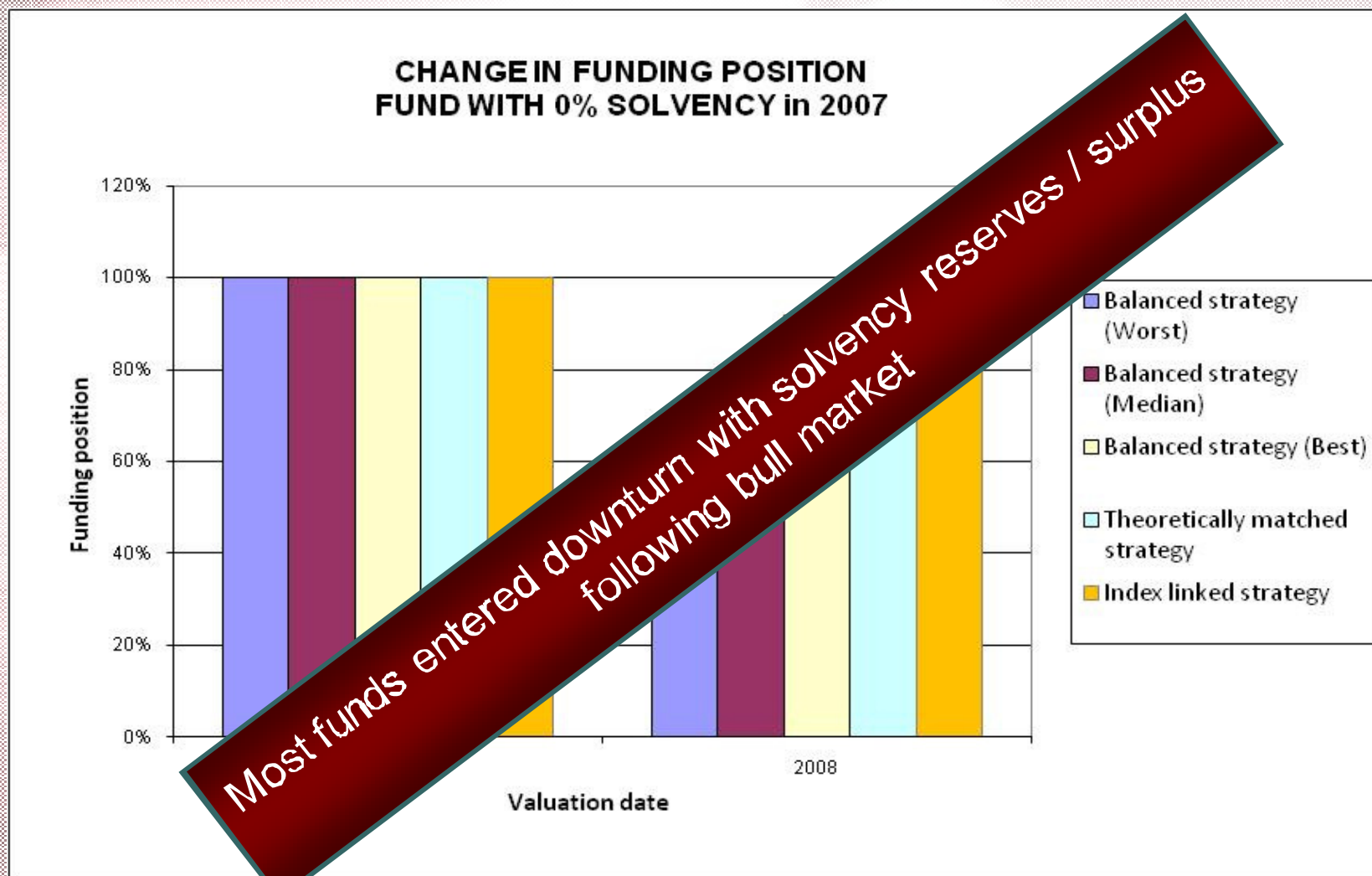
1. Introduction
2. Implications for defined benefit funds
3. Implications for defined contribution funds / members
4. Some general issues
5. Conclusion

# Introduction

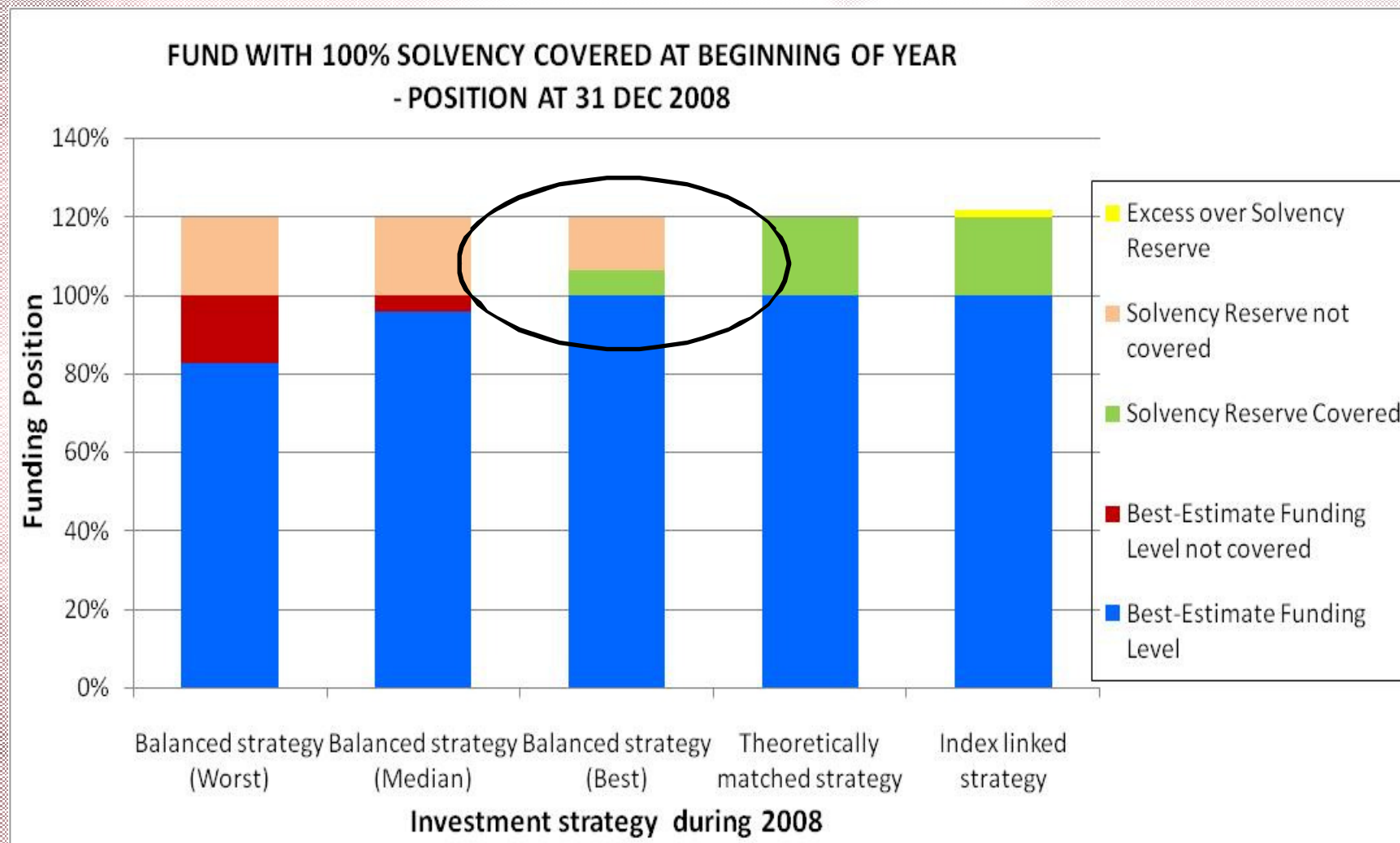
- Bull market (mid 2003 – end 2007)
  - *Focus on returns*
- Post-financial crisis (2008 - )
  - *Shift from returns to risk management*

- **All aspects of strategies / policies / fund infrastructure now being stress-tested!**
- **Need to review key areas / ensure they remain appropriate**
  - **Need to avoid losing long-term focus!**

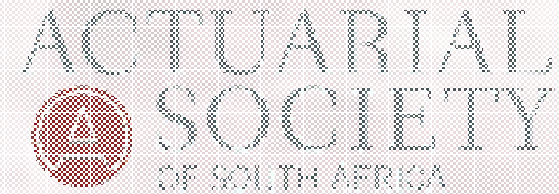
# Impact on DB Funds



# Impact on DB funds



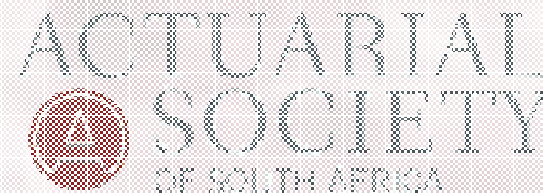
# Key DB consulting issues



*“It is good practice for trustees to keep the employer covenant under review, and trustees must judge whether their existing plans and processes in this area are adequate, given current conditions”*

UK Pensions Regulator’s October 2008 statement to trustees

# Key DB consulting issues



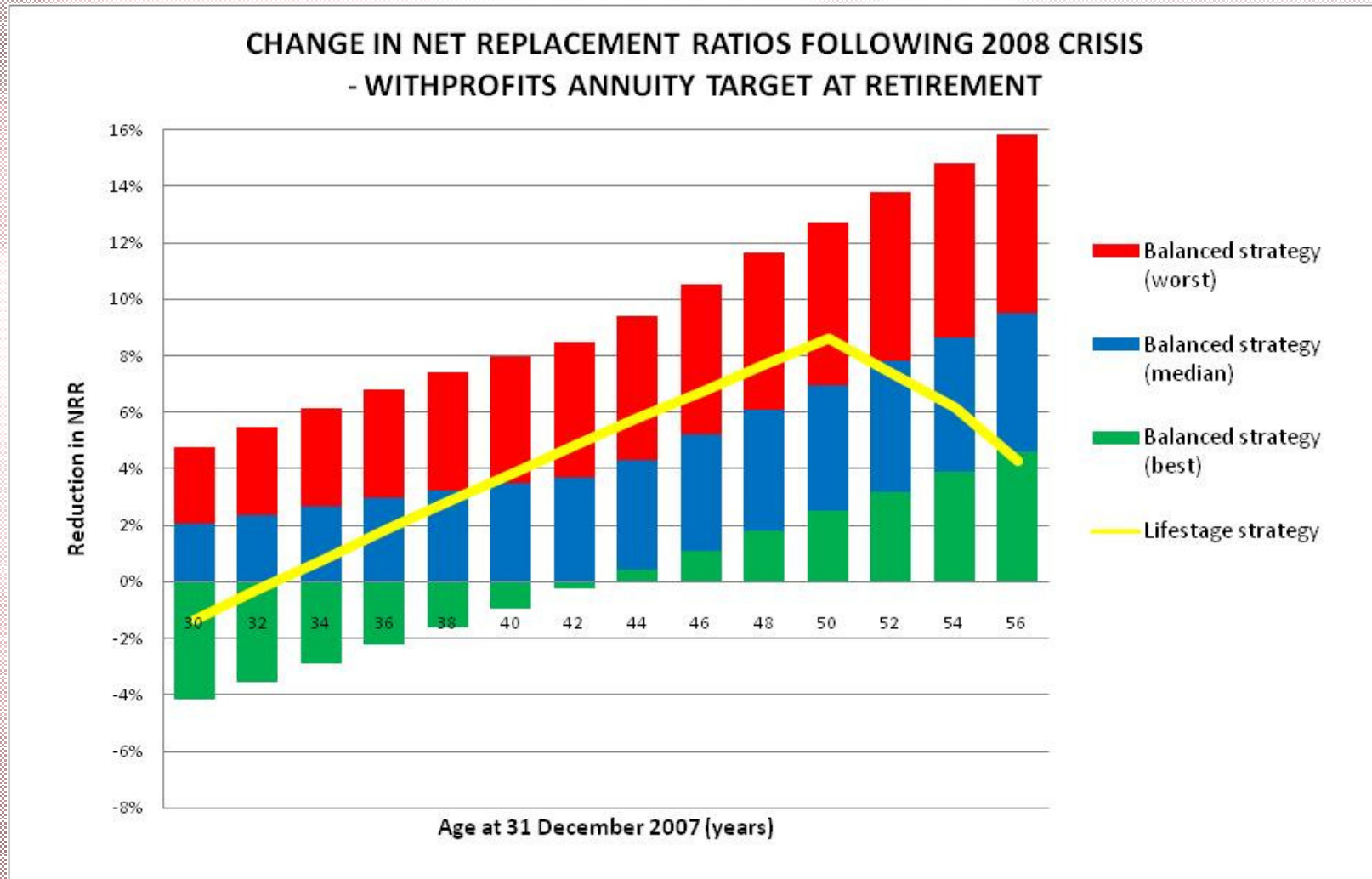
- Employer covenants
  - *Ensure appropriately monitored / early warning system*
  - *Seek additional security if under threat*
  - *Agree trigger points and actions*
  - *Impact on fund investment strategy?*
  - *Needs more focus in SA*
- Review impact on pension increases / affordability early on (manage expectations)
- Review investment strategies

# Key DB consulting issues

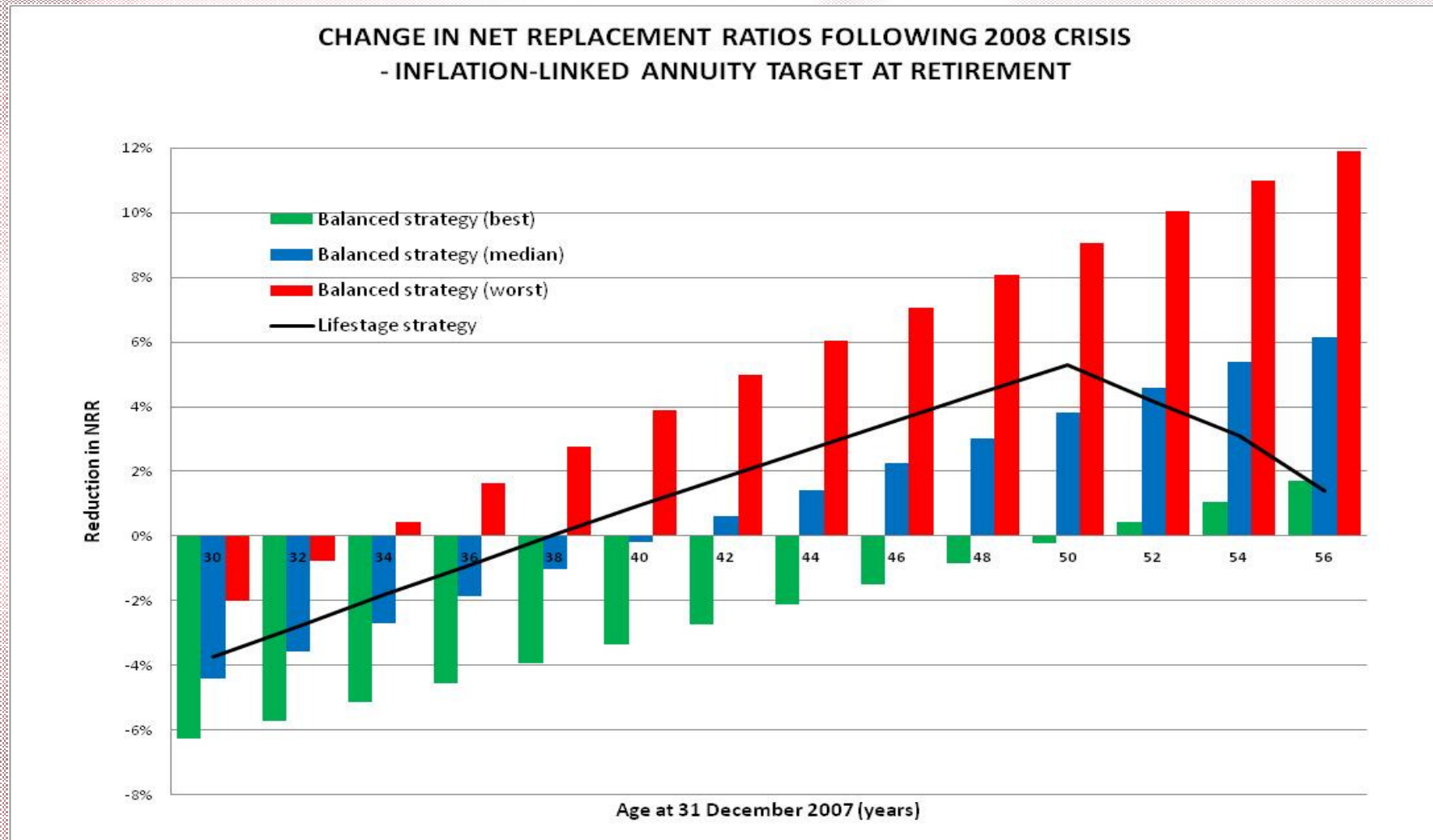
- New surplus
  - *Trend to hold back distribution of this*
- Use of Employer Surplus Accounts
  - *Cashflow / contribution holidays*
  - *Repatriation*
  - *Ensure positive balance still available before major transactions*
- Ensure employers aware of fund position / scenarios
  - *Regular monitoring*
  - *Develop funding plans where required*



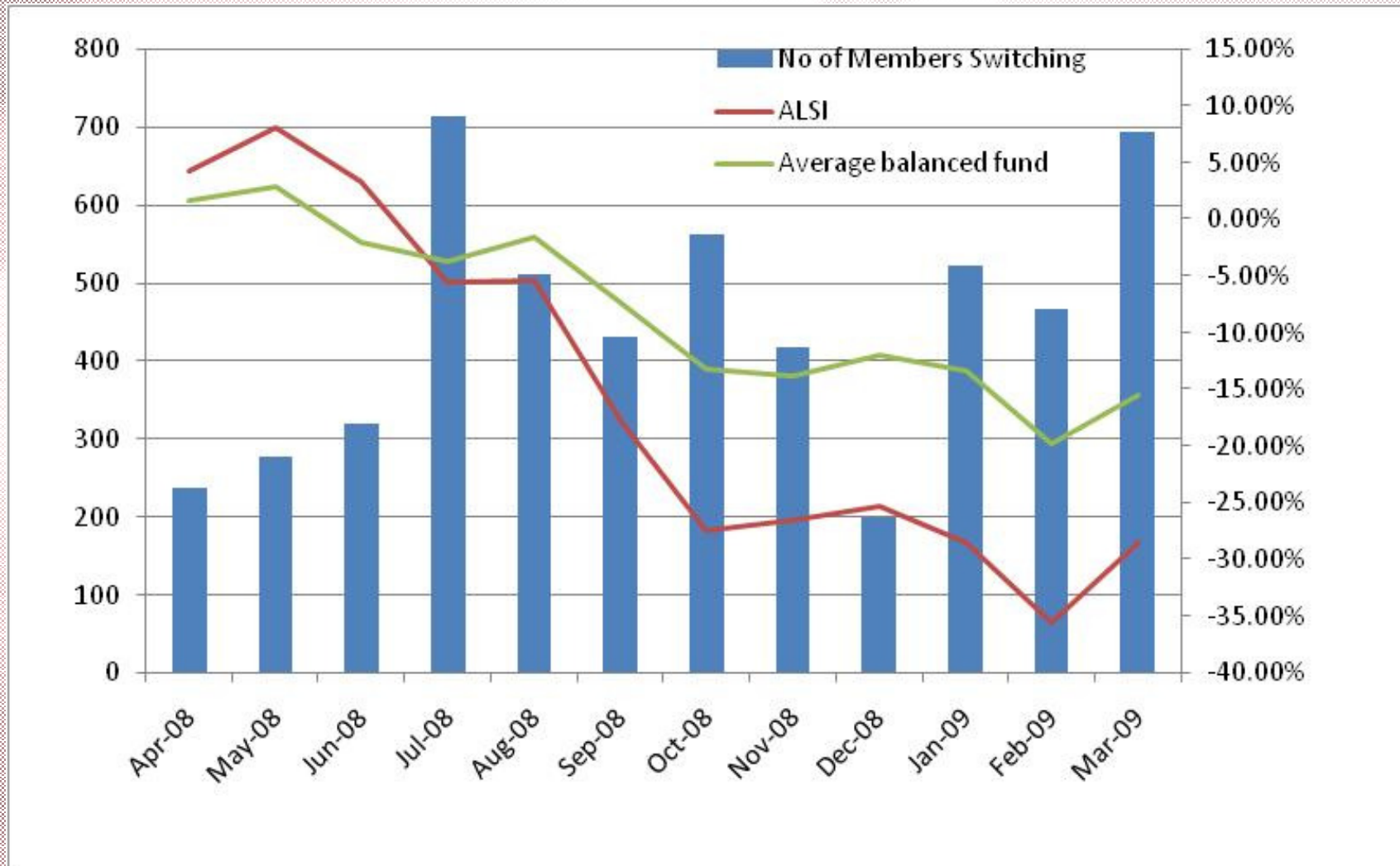
# Impact on DC members targeting with profit annuities



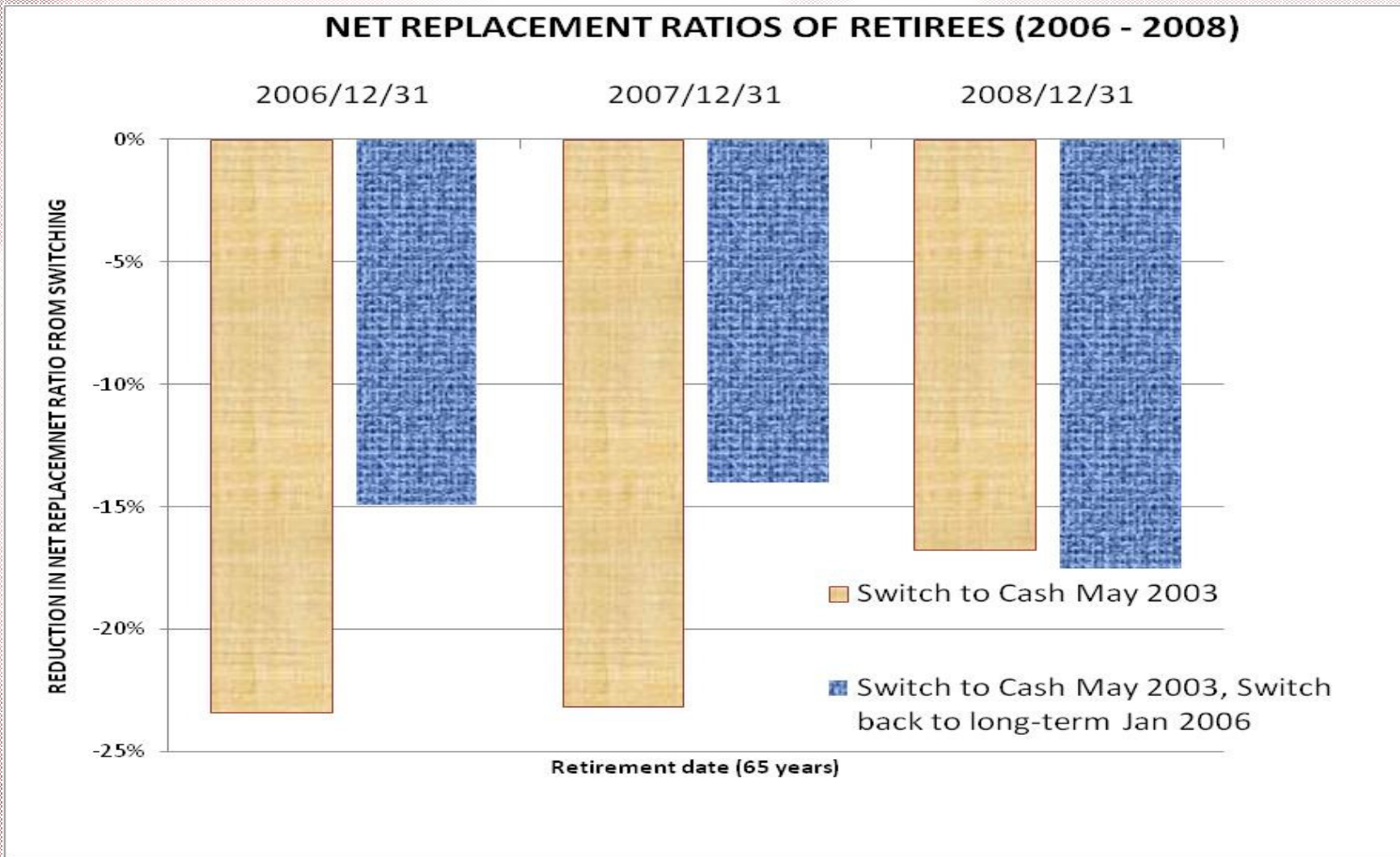
# Impact on DC members targeting inflation-linked annuities



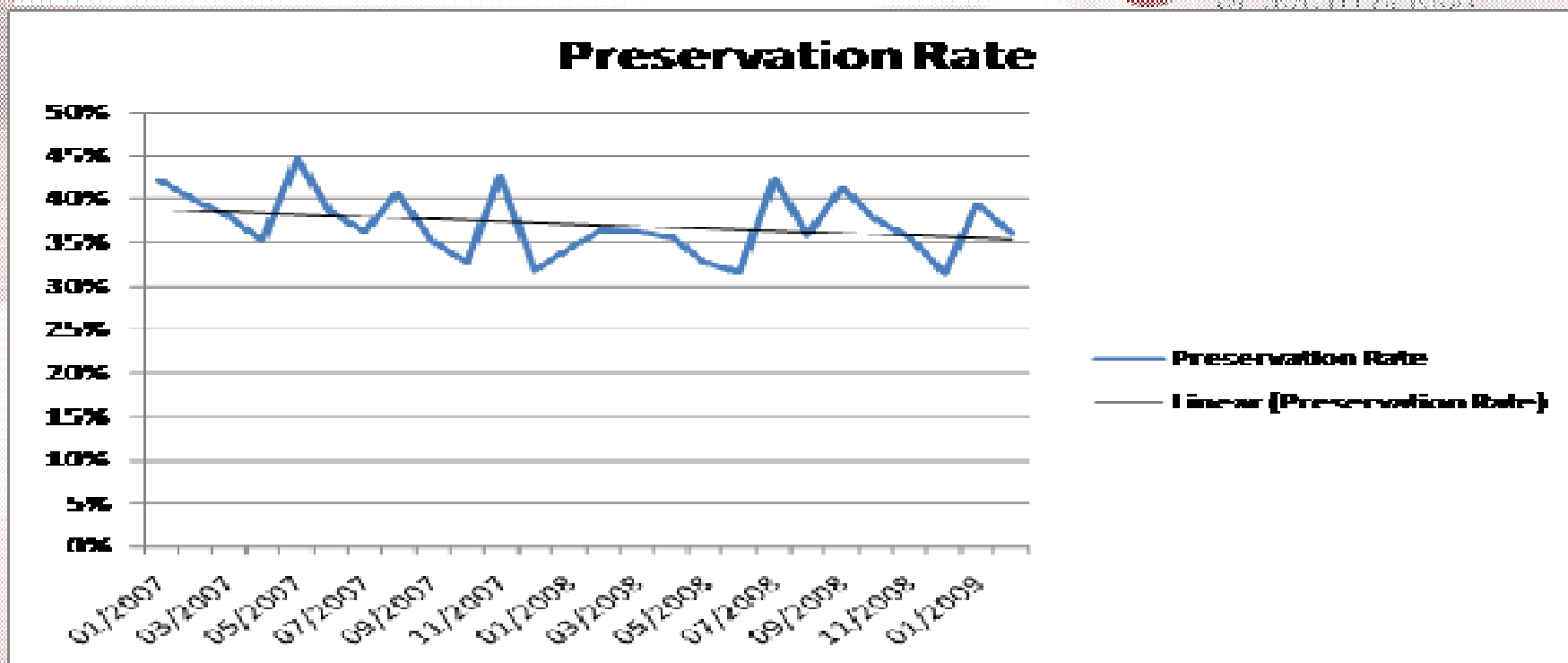
# Switching activity



# Impact of investment switching



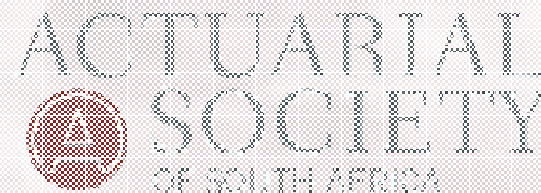
# Trends in preservation rates



## Retrenchment

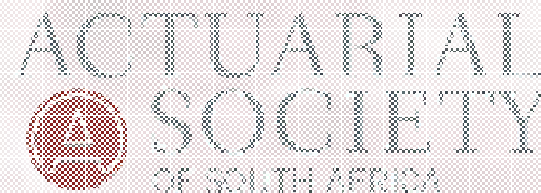
- *Cash vs preservation*
- *Matching preservation strategies*
- *Support mechanisms / access to quality advice*

## Key DC consulting issues



- Appropriateness of one-size fits all strategies and “traditional capital protection options” to be revisited
- Appropriate / strong defaults very important
- Avoid excessive member choice menus
- Key that strategies before and after retirement are aligned
- Explore flexible annuitisation options to manage timing risk iro annuity purchases

# Key DC consulting issues



- Review procedures iro member choice switches to ensure appropriate & manage associated risks
- UK planning stats low (expect similar in SA)
  - *Ensure appropriate support mechanisms*
  - *Ensure sufficient access to advice (incl sound risk management tools)*
  - *Ensure appropriate standards / guidance notes for projections (none in SA yet)*
- Monitor member behaviour / “funding levels”
  - *Identify key risk issues / value detractors*
  - *Take appropriate action to ensure objectives achieved*

## General consulting issues

- Diversification important
- Importance of proper due diligence exercises highlighted (Madoff)
- Ensure member communication highlights returns & risk
- Ensure appropriate level of insurance (providers and Trustee Fidelity)
- Review strength of all insurers (GLA, Funeral, Fidelity, PHI, annuity purchases)
- Significant overhaul of PF70 guidelines required / practice in certifying appropriate matching



# General consulting issues

- Do not ignore risks
  - *Tail events can and do occur*
  - *Use of stochastic tools key*
- *NB to price risk appropriately*
- Review impact of liquidity issues
  - *Impact on pricing*
  - *Avoid fire-sales*
  - *Review underlying assets / quality*
  - *Ensure liquidity of portfolios sufficient, especially for members close to retirement and where retrenchments are expected*

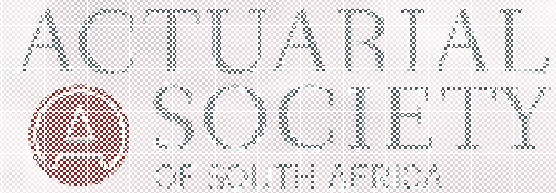
# General consulting issues

- If you don't understand an investment, don't invest in it
- Review transaction management processes (e.g. investment / disinvestment / switching instructions)
  - *Update authorisations etc in order to act swiftly*
  - *Ensure these remain appropriate given current volatility / liquidity issues*
- Ensure robust manager continuation policy
- Consider likelihood of material transactions in the coming months (e.g. retrenchments)
  - *Consider deferring / phasing*
  - *Ensure sufficient liquidity available*

## Conclusion

- Financial crisis has highlighted the importance of sound risk management in the retirement fund industry
- The Actuarial Profession has key role to play
  - *Bring together assets / liabilities (DB / DC)*
  - *Highlight significant risks*
  - *Quantification of these risks*
  - *Developing sound risk management tools / advice that focus on key objectives*

## Contact details



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