

# OLD MUTUAL CORPORATE CONSULTANTS **TARGETED RETIREMENT OUTCOMES**



{ CASE STUDY }

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Perhaps the best way to understand the considerable benefits of Old Mutual Corporate Consultants' Targeted Retirement Outcomes (TRO) approach is by means of an actual example.

## THE BACKGROUND

An Old Mutual Corporate client, who is a participating employer in Old Mutual SuperFund and has a staff complement of about 2 500, approached Old Mutual Corporate Consultants to assess the effectiveness of their retirement offering and the way in which this was being utilised by their employees.

A key concern was whether the relevant members were making appropriate choices in terms of not only the investment portfolios available to them, but also their individual contribution levels as a percentage of salary. Unfortunately, while this employer had taken the positive step of making a retirement fund available to its staff, it did not feel that it had appropriate ongoing assessment metrics to check that those employees were making good decisions regarding the use of this fund to create the retirement futures they desired.

The employer suspected, but was not 100% sure, that its employees were not sufficiently well informed about setting retirement savings goals and then translating those into good decisions in terms of the choices available to them. As a result, the employer was concerned that a proportion of its workforce was not making adequate provision for their retirement and, more importantly, was oblivious to the shortcomings of their savings. The obvious concern for the employer was that these individuals might think that, just because they have a retirement fund, their financial security was assured. For those contributing less than they should to their fund, this obviously would not be the case - but many would not realise this until it was too late.

To avoid this scenario, the employer approached Old Mutual Corporate Consultants to undertake a comprehensive investigation.

## THE APPROACH

In order to provide the employer, and each individual fund member, with a clear view of the path they were on in terms of their eventual retirement preparedness, Old Mutual Corporate Consultants undertook a full analysis using the retirement membership savings and contribution data provided by the client.

The analysis used Old Mutual Corporate Consultants' proven Targeted Retirement Outcomes methodology, which focuses, amongst other outcomes, on:

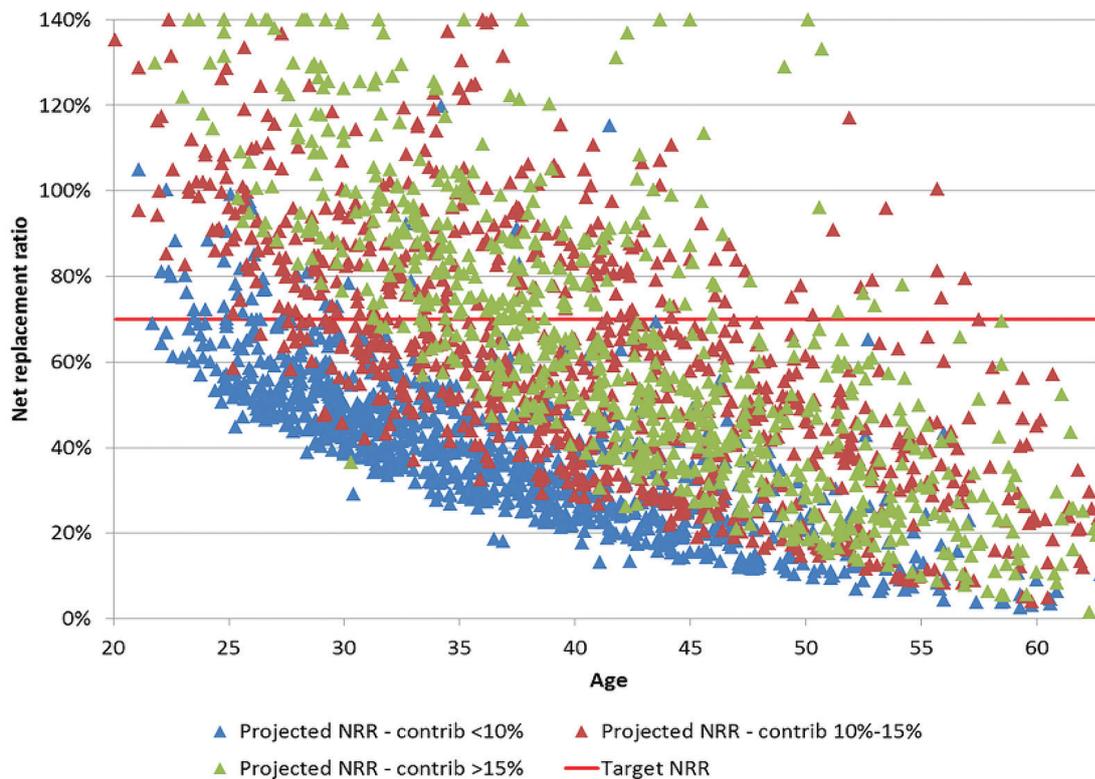
1. the overall fund membership profile,
2. the time-to-retirement horizons of the relevant members, and
3. the returns above inflation that these members need to achieve in order to realise their retirement goals.

## THE FINDINGS

One of the most telling outcomes of the TRO analysis was delivered through the evaluation of the Net Replacement Ratios (NRR) of the employees. NRR is effectively the percentage of an employee's projected salary in the year before retirement that he or she can realistically expect his or her retirement savings to pay out as a pension in retirement.

It is widely accepted that an NRR of 70% is an appropriate target that will allow a pensioner to enjoy a similar quality of life to that which they had before retiring.

As can be seen from the graph below, the NRR analysis of the employees found that the vast majority had chosen contribution levels that would result in an NRR at retirement that would be far below the ideal 70% (the red line in the graph).



Unsurprisingly, this was especially true of employees contributing less than 10% of their salary to their fund (the blue triangles). However, it was not only this group that were found to be heading for retirement underfunding. A large number of employees that were contributing more than 10% of salary to their fund (the red and green triangles) were also likely to end up with insufficient retirement capital.

A significant cause of this underfunding situation was the fact that employees were given a choice of how much they wanted to contribute. While member choice like this is not necessarily a bad thing, most members focus on maximising their take home pay because they are not shown the impact that choosing a low contribution rate will have on their future pension. The TRO analysis revealed that a number of these employees had, in fact, opted for the lowest contribution rate, as this afforded them a larger take home salary.

Another key finding was that the members had selected a total of 40 different investment portfolios. This vast portfolio offering had resulted in challenges for both the members – many of whom were overwhelmed by the choices facing them – and the board, which had little hope of monitoring the suitability of this myriad of portfolios and consequently felt unable to adequately assist their members.

## THE RECOMMENDATIONS

Based on the findings of the analysis, Old Mutual Corporate Consultants was able to advise the employer on appropriate actions to take to positively impact on the futures of it's employees. These recommendations included:

- Maintaining a measure of member contribution choice, but constraining this choice within a range that enabled more suitable retirement outcomes.
- Removing the option for employees to make a very low contribution to their retirement savings.
- Consolidating and simplifying the underlying investment portfolios and member choices to enable and ensure appropriate member choices.

Old Mutual Corporate Consultants has now partnered with this employer to implement these recommendations and engage with its employees to highlight the potential shortcomings of their retirement savings approach. A vital component of this partnership is helping the members to make the necessary changes to improve their retirement outcomes in the future through various communication channels including personalised letters and workshops.

## FIND OUT MORE

To find out more about Old Mutual Corporate RO approach and what it could do for your retirement fund offering and your employees, contact us today:

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<b>Pretoria</b>	012 368 3540	012 368 3540
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