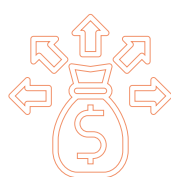




The two-pot retirement system FOR THE TRUSTEE

What you need to know



1 Liquidity is key. Trustees need to balance the risk levels of their investment strategy to meet the liquidity and preservation requirements of the two-pot system. Members will be allowed to withdraw yearly; therefore, a large amount of cash needs to be available.



2 Rethinking investment strategies. Current investment strategies will have to be reviewed to accommodate both pots and to manage risk. Members wishing to withdraw their funds could crystallise their losses if the fund's aggressive strategy upon withdrawal has been underperforming. If retirement funds were invested in alternative or private equity investments, liquidity at the point of withdrawal could be an issue.

Profiling a lower-risk portfolio for the savings pot relative to the retirement pot could prejudice members who remain invested until retirement age and who would face lower returns on their funds. One way for trustees to mitigate this is to consider a lower-risk profiled savings pot, where the retirement pot could be invested more aggressively to compensate for the expected lower return.



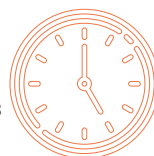
3 Allocation choice. Another way to not jeopardise members who stay invested is to give them more choice. Trustees could consider providing members with choice portfolios for the savings pot, and a 'default' savings strategy for members who don't wish to choose their own portfolios. This is risky as trustees would need to consider member profiles and their depth of financial knowledge, but it could be an option for mega funds that have higher governance models.



4 Educating members. How will the retirement fund provide informative and engaging member education, especially regarding the importance and compound effect of keeping savings invested? Withdrawal should only be an option in a crisis. The tax implications of withdrawals and the high risk of withdrawal fraud should also be highlighted. Trustees should consider retirement counselling beyond that given when members leave a fund.



5 Eco-system readiness. How will your retirement fund's administrative systems, designed for long-term savings, adapt to the annual withdrawals from the savings pot? For example, can the administrators handle the expected rush of claims in the first few months after implementation? Preferably this process should be automated. Trustees should advocate the digitisation of the member claims process and the creation of a new benefit statement that includes the three pots and their totals. Trustees need to consider how they can best manage any potential delays or glitches with SARS regarding member tax directives for withdrawals.



6 Time is tight. One of the critical aspects of the implementation is a complex amendment to the registered fund rules. Once the bill has been signed into law, trustees have only a short time to amend the fund rules to allow prior access to a portion of the savings pot. The Financial Sector Conduct Authority office must then register and approve such rule amendments for approximately 1 000 registered retirement annuity, preservation, pension and provident funds.

REFERENCES

Liberty: What you need to know about the two-pot retirement saving system. | Moonstone: Two-pot retirement system: who will be the winners and the losers? | Sasfin: A Two Pot Retirement System ... the lesser of two evils.

