MOTOR INDUSTRY RETIREMENT FUNDS

RISCURA

TOMORROW'S RETIREMENT INDUSTRY WILL BE RADICALLY DIFFERENT – SO WHAT SHOULD PENSION FUNDS AND THEIR MEMBERS BE THINKING ABOUT NOW?

Today's pension fund members should be investing for a horizon of 80 years or more. While it is impossible to predict what the world will be like in 2100, it is safe to assume that it will be radically different to the one we live in today. We can expect the retirement industry to be disrupted by many unforeseen changes, just like we saw with the very recent Covid-19 pandemic. So, it is useful to consider the trends we *can* identify. How are these likely to impact long term savings outcomes, and what should pension funds and their members do now to capitalize on the opportunities presented and mitigate risks?

Below are some factors that the retirement industry should be considering in order to transform its traditional approach and ensure it is able to meet future expectations.

Living longer

Life expectancy has increased dramatically across the globe and will continue to do so as technology and medical research advance at a rapid pace. Since the 1950s, the average life expectancy globally has increased from 30 years to 72 years. And this progress has not been confined to the countries with aging populations (Japan and Italy for instance). In every world region people today can expect to live twice as long as 50 years ago.
Globally, some countries have consequently already looked to increase the pensionable age, so that people can work longer in order to fund a longer healthier life in retirement. We will be working for longer and spending longer time living in retirement, living off our retirement savings. We will have to save differently and increasing longevity will have a significant impact on members' retirement contributions required. Now pension funds need to think about their asset allocation, the appropriate risk/return trade-off and investment strategies for pension funds.
We may also see a fundamental shift in the way we accumulate savings over time. The old model of studying or training for a job and then building a long-term career in that field until retirement may soon be outdated. Increasingly, people may opt to stop and retrain mid-career – possibly even a few times over. This could change the nature of the traditional retirement journey, and the retirement industry may need to adapt accordingly.
In addition, many pension funds are likely to face the challenge of an ageing membership base with fewer new members coming in due to the impact of automation and artificial intelligence (AI) in future. Are their current investment strategies designed to support and survive this?

Impact investing

As Millennials, Generation Z and future generations form an increasingly large proportion of pension fund members, their voices will become impossible to ignore. What do they want and expect from their investments? According to a recent survey by Morgan Stanley, 84% of Millennials cite investing with a focus on Environmental, Social and Governance (ESG) principles as an important goal. They do not simply want investments that will yield the required return. They require their money to have a positive impact on society and the environment.
Pension funds have been incorporating ESG for some time now, but these considerations will only become more critical going forward. What should pension funds do now to position themselves for meeting the increasing demand for products offering strong returns and positive social impacts?

Climate risk and the environment

According to the Intergovernmental Panel on Climate Change (IPCC) – a United Nations body for assessing the science related to climate change – Southern Africa is a climate change hotspot. The Intergovernmental Panel on Climate Change notes that temperature increases in South Africa (SA) are rising twice as fast as the global average.

The impact of this will be far-reaching and will affect food and water security and ultimately economic growth in SA. Any long-term investment strategy today needs to be aware of climate risk and take steps to mitigate against this. What can pension funds do to ensure that their investment strategies are environmentally sustainable? Do they make explicit investments into alternative energy infrastructure? Do they ensure that the properties in their portfolio are classified as "green buildings"? Do they exclude companies that harm the environment from their investment portfolio or implement some other negative or positive screening method?

Technology

Robo-advisors will become more prominent in the investment world in the coming decade and beyond. It is estimated that about $1 trillion of assets under management is currently being administered by robo-advisors and that this number will increase to $4.6 trillion by 2022. Robo-advisors will be a good option for "DIY" investors, since they are likely to offer the same advice at a fraction of the cost of traditional financial advisors. When it comes to larger pools of money – pension funds, or ultra-high net worth (HNW) individuals, for example – we anticipate a hybrid approach to investment advice. Artificial intelligence will work alongside human advisors who have embraced new technologies. Are pension fund trustees doing enough to ensure they – and their advisors – keep abreast of the technological developments and innovations that are likely to disrupt the industry?

Increasing regulation

Corporate scandals and the need for more oversight have necessitated more stringent regulatory requirements. This is placing strain on pension funds across the globe, and South Africa is no exception. Busy trustees simply do not have the governance bandwidth to deal with the ever-increasing requirements. Additional resources need to be allocated to ensure funds remain compliant and this ultimately comes at a cost to the members of the fund. What are pension funds doing to ensure that they can remain abreast of new developments, without having decisionmakers paralysed by a proliferation of regulations? Do they need to allocate dedicated resources or amend the mandates of their service providers to ensure compliance?

Each of these trends presents new challenges for pension funds and innovative solutions are needed. This calls for the use of specialized skills and knowledge across the retirement funds environment in order to keep funds relevant and meet their members' needs. As an example, for fund investments investment advisors can answer the call by providing future-focused alternatives for trustees to preserve the best outcomes for their members while meeting industry requirements.