

## **Empower retirement fund members to save enough for retirement**

**February 2020:** Many retirement fund members are blissfully unaware of whether their retirement savings are on track to reach their retirement goals. Even those who suspect their savings for retirement may be inadequate often bury their heads in the sand and hope for the best, unaware of the steps they can take to improve their retirement outcomes.

Empowering education and ensuring members have access to the right information at the right time are potent tools for helping members to make smarter financial decisions which lead to better retirement outcomes.

Retirement fund boards of trustees and management committees try their best to improve members' retirement outcomes by creating appropriate investment defaults. However defaults are typically designed around the "average" member. The reality is that the average member does not exist. This is particularly apparent when members reach the pre-retirement phases, when investment portfolios ideally need to align with their specific annuity choice.

### **Education for informed decision-making**

The retirement fund industry can be complex and confusing. Members need to be educated around how their funds work, how annuities work and what they can do to increase their retirement savings to receive an adequate income during retirement.

Some of the actions members can take to increase their retirement income include:

- Increasing their contribution rate
- Choosing the investment portfolio that best matches their personal circumstances and their investment horizon
- Keeping their retirement savings invested when changing jobs
- Starting to save as soon as possible (if their employer doesn't provide a retirement fund)
- Retiring later

### **Tap into technology**

The practicality of educating members can appear overwhelming to trustees and employers. However, advances in technology and the ability of people of all ages and demographics to use technology like smart phones, tablets and laptops makes empowering education and communication far more possible than previously.

YouTube, podcasts, animated Whatsapp videos and easy-to-read articles on the employer's staff website are just a few of the many channels that can add tremendous value.

### **Consistent communication to drive action**

For education and communication to have a significant impact, it is important to translate improved knowledge and awareness into action. Persistent communication, focusing on the same message across various communication channels and an escalating sense of urgency, has been shown to be effective in getting people to start putting knowledge into practice.

Members need to be continuously informed of how their retirement savings are doing relative to their targeted goals. Where savings are falling short, they need to be informed of the actions they should consider.

While much of this information may be available on the employer's staff website or in their annual benefit statement, members often don't prioritise a retirement 'check-in' until they're nearing retirement, when the impact of actions to improve retirement outcomes is limited. This is why a professional, well-orchestrated communication strategy designed to turn awareness into action is vital. The strategy should:

- Show members how potential actions can make a big difference to their desired outcomes.
- Clearly explain the options available to members when they need to make key decisions, such as choice of an appropriate investment portfolio at different life stages, choice of annuity at retirement and what to do with their retirement savings when changing employers.
- Highlight the factors that need to be considered when making choices.
- Inject a sense of urgency (but not panic) and encourage members to take control of their financial destiny.

It is also very important that the demographics of members, particularly factors such as age, income and education levels, is taken into account and communication is tailored accordingly.

There is a tendency to underestimate members' apathy and overestimate members' understanding of the retirement industry and terminology. Momentum Corporate's research shows that members have a basic level of financial literacy and there is a general discomfort around industry terminology, regardless of age or income.

It is important that education and communication becomes more 'top-of-mind' for trustees, as an effective strategy in this area can have a significant impact on members' retirement outcomes.

As a team of unbiased professional retirement fund consultants, Momentum Consultants and Actuaries is perfectly positioned to assist with the development of effective strategies to empower members and improve their retirement outcomes.

ENDS.

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