

Coaching your client for improved retirement outcome

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South Africans are notorious for their poor savings culture. Our national savings rate has decreased if compared to 30 years ago and has been fairly stagnant over the last 20 years.

For many South Africans, the impact of this is seldom felt as harshly as during retirement. The reality is that a lack of provision for retirement won't only affect your own standard of living, but it very often also affects the living standard of your children as they will likely need to support you financially. This problem is not due to a lack of options to the savers in our country. There are various ways for South Africans to save for retirement. Retirement annuities, pension funds, provident funds and preservation funds – all of these provide tax-efficient and well-governed investment vehicles that is ideally suited for retirement provisions.

Even the range of investment wrappers typically reserved for discretionary investments can be used to provide for retirement. The range of investment management solutions that are available to clients have also seen high levels of innovation, with various options available to make it more personal and suit a clients' risk capacity, tolerance and appetite. We should also acknowledge that all these options can confuse clients – as human beings, we are not really wired to deal with the complexity of choice. This begs the question – what can financial advisers do to improve the retirement outcomes for clients?

What are the aspects of retirement planning that you can directly control? I truly believe that financial advisers should increasingly play a role of a financial coach in future. Advisers should focus not only on the 'hard facts', but also the 'softer' aspects – like human behaviour or behavioural finance – as this will directly impact the choices that clients make, and therefore also affect their financial outcomes. Given South Africans' poor historic retirement outcomes, it is clear that our clients need the personal guidance and assistance that only professional financial advisers can offer.

The first aspect is to ensure that clients start their retirement savings journey. Clients are often overwhelmed when they see the suggested savings contribution that will be required to retire comfortably. And this can lead to not starting at all. As financial coach, it is important that your clients realise that any start – even starting small – is infinitely better than to simply keep the status quo.

Rather devise a plan where the contribution amount can gradually be increased over time – possibly to align with their annual salary increase. The next aspect is possibly the hardest but is often overlooked. Once a plan has been implemented, it is important to continuously remind your client that sticking to the plan is quite crucial.

In this context, I don't only refer to the contribution amount, but also to the investment and asset allocation plan. In research conducted at Momentum Investments, we noticed that an average of 1.1% of a client's annual investment return was destroyed during the 2008 financial crisis when they opted to switch their investments between different funds or providers. And this increased to a massive 6.5% reduction in return during the Covid-19 market volatility – only because they tried to time the market. This 'behaviour tax' is an expensive price to pay, and typically leads to worse financial outcomes – especially if it compounds over 20 to 30 years until retirement. The good news, however, is that you as financial adviser can directly influence your client to avoid this behaviour tax.

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Naturally, the investment solution you recommend to your client can also contribute to avoid this behaviour tax. Choosing a solution that aligns with your client's risk appetite should reduce the 'switch itch' that clients often experience during volatile markets. This is an aspect that we deliberately manage in our investment solutions through our outcome-based investing philosophy. Our outcome-based investment solutions not only aim to deliver on specific return targets that aligns with your advice process, but also incorporates explicit risk management measures that, for example, assist in managing drawdown risk. We believe that this is one way we make investing personal and that this alignment will assist you in coaching your client to stay invested, and ultimately to deliver on their personal retirement goals.

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