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“Planning for Retirement,”

with Mike Estment CEO NFB Financial Services Group

JOHN FRASER: To discuss this, I’m joined by Mike Estment, the CEO of NFB Financial Services. I suppose the simple answer is as soon as you start earning money, you should start saving money.

MIKE ESTMENT: That is an absolute fact. In fact the way that the government is treating the whole pension issue is predicating that as well - that’s a good idea. The compound interest factor is absolutely immense and so certainly to formal pension plans as well as what we call discretionary investment - that extra bit that you have left over at the end of the money - if you put that away, the result over ten, twenty, thirty and forty years which is a typical working life, are absolutely outstanding.

JOHN FRASER: Now it makes perfect sense but unfortunately its far more fun to spend than to save and I think I’m right in saying that South African’s aren’t the best savers, are we?

MIKE ESTMENT: South African’s are amongst the worst in the world. It is probably borne out of the history of our pensions industry where the company used to look after you into retirement. That’s all changed. We’ve become world leaders probably in some of the technology and processes of pension products, and planning and what is now called a defined contribution where you save, you choose what it does, and you determine the outcome, is the name of the game. So timing is absolutely everything. Get it going as quickly as possible and time will do the rest.

JOHN FRASER: That’s the current situation but the government is planning some State-wide new scheme isn’t it? How will that affect somebody who is already linked into some form of pension plan or savings plan?

MIKE ESTMENT: John it will be a positive thing for most. What is happening is there are three tiers coming. The lower tier is for everybody to contribute up to a reasonably low annual salary level. The middle tier is for probably what we would call middle to senior management which will be industry-wide savings scheme. The whole focus is that everyone will save, everyone will benefit and probably because they're such broad massive schemes, the cost impact is going to be compressed. So there'll be higher levels of competitiveness between the vendors of those products. There will be lots of transparency and probably greater investment efficiency. In the upper end of the market, you'll have a kind of superannuation level where the investor or the employee will have his own freedom of choice as to who will look after his money and what he is going to do with it, taking probably greater levels of risk which the government has also cognizance of that. They do not want blue collar workers being led down the garden path by unethical players.

JOHN FRASER: There are some forms of saving and annuities come to mind which might expire before you expire and some decision has to be made about how you reinvest the money and maintain the value. Presumably at that stage and maybe even earlier, you do need a good financial adviser?

MIKE ESTMENT: I think that that is factual. I do think for the retail smaller investor there are probably greater efficiencies in going into the internet which more and more people have access to, getting online to - if it's a single one-dimensional investment you can probably do better by not using a professional adviser because there are going to be costs attributable to that service and that professional input. As your portfolio becomes more complex and issues, not only investment but tax retirement, cash flows, the complexities of holding or disposing of other assets like real estate, become prevalent then it makes absolute sense that professionals are consulted and that you find someone with whom you get on, you understand, and who understands your needs.