

The retirement gap is the gap to worry about

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The outlook for South Africa's retirees varies wildly depending on which life company or asset manager you speak to. Some say only one in 10 will retire comfortably – others say the situation could be even worse! Once all is said and done the statistics swing back and forth depending what is meant by the phrase “retire comfortably!” One man's comfortable retirement will be the next man's living hell! To get a better “feel” for South Africa's retirement landscape – and to find out what individual savers could do to better prepare – we put a few questions to Pieter Koekemoer, head of Personal Investments at Coronation Fund Managers.

His point of departure was to remind us of the shortfall – or “gap” if you prefer – between actual and optimal retirement provisioning. The fact is too few people participate in formal retirement funding structures. “We know that there is a significant coverage gap in South Africa,” he says. “Many of the country's formally-employed, and virtually none of the informally employed, belong to formal retirement plans.” At a rough guess as many as five million of the “employed” citizens have no formal retirement plan... And many of the eight million with employer-sponsored or personal plans are under-providing.

Three rules for a successful retirement

To plot a path to a successful retirement one first has to define what form this “success” takes. “A successful retirement plan is one that allows you to retain your standard of living through the whole of your retirement,” says Koekemoer. The industry has reached consensus that most South Africans will be satisfied with a replacement ratio – the percentage of ones final gross salary received in the first year of retirement – of 75%. Someone earning a gross salary of R500 000 in the year before retirement would therefore consider R375 000 in their first year of retirement as a “success”.

A big mistake many retirees make is to underestimate the length of their retirement. “Your income has to last for the rest of your life – and that means your investment time horizon should stretch between 25 and 30 years,” says Koekemoer. The “ball park” capital amount required to provide you with comfortable income through requirement is around 15 to 20 times your desired final income... In the above example you would have to retire with around R5 625 000 (R375 000 x 15) to achieve the desired outcome. How do you save this kind of lumps sum? Koekemoer proposes the following:

Rule 1: Start saving as early as possible! The success or failure of a savings strategy hinges on the “magic” of compound return. An individual who saves R100 per month between age 25 and 35 and subsequently stops further contributions will end up with three times the capital sum (at age 65) compared with someone who contributes the same amount between age 35 and 65!

Rule 2: Preserve! Resist the temptation to spend your retirement benefits when you change jobs. You should fund your lifestyle requirements from your salary and not from your accumulated retirement savings. The failure to preserve your retirement funding is the single biggest reason why people with formal plans end up with inadequate capital at retirement!

Rule 3: Take appropriate levels of risk. You cannot be too conservative when saving for retirement. Retirement planning is a long term activity, playing out over a 50 to 70 year time horizon. Investing in growth assets with sensible lifestyle stage adjustments will yield the best results.

Putting something “extra” in the retirement pot

The average member who exercises the abovementioned rules should reach retirement age with adequate capital. **Despite this Koekemoer believes most savers should invest in additional growth assets outside the tax-sheltered retirement fund environment.** “The most accessible growth assets are listed shares and property, typically accessed through multi-asset unit trusts,” he says. But he warns against over reliance on one’s primary residence as a retirement asset

Houses can take a long time to “sell” and retirees often extract less capital than they expect due to the high cost of the replacement property. “By selling their primary residence many people end up violating the objective of maintaining their lifestyle in retirement,” says Koekemoer.

Editor’s thoughts: Retirement seems so easy... Put away enough each month, start early, invest in appropriate return products and preserve! But putting these tips into practice seems near impossible to those who aren’t part of the formal retirement provisioning system. Too many of us divert what should go to retirement savings to our month-to-month cost of living expenses. How do convince people to forego today’s luxuries in favour of a sound retirement?