INVESTMENTS

10X South African **Retirement Reality Report**

2019

South Africa's retirement crisis is set to worsen, with even fewer people prepared for retirement than previously thought. The second annual 10X Investments report on retirement readiness in South Africa interrogates this issue and the underlying reasons based on the results of our Retirement Reality survey.

Last year's inaugural Retirement Reality Report (RRR18) made it clear that South Africa was sitting on a retirement timebomb, with the data aligning very closely with a widely quoted National Treasury statement that only 6% of the country's population was on track to retire comfortably. The report also outlined some of the key reasons why so many South Africans face a bleak reality after their working lives come to an end.

This year's report (RRR19) builds on that and delves deeper into factors affecting people's retirement planning across the various demographic groups in SA.

A key issue that cropped up again and again in the data from which this report was compiled was that mounting financial pressure is preventing people from saving for retirement. This talks to two things: that times are extremely tough for very many people, and that too many people think of retirement saving as a low priority expense rather than an essential investment.

This report confirms that retirement planning is a very low priority item for most people. For most South Africans, it is not front of mind because of the day-to-day financial struggle. But even among those who are saving for retirement, an alarming number have no idea whether their savings plan is on track or what proportion of their savings they are paying away in fees.

The report serves as both an analytical tool and a descriptive interpretation of the current local retirement landscape. 10X Investments hopes the report will draw further attention to this crisis, which is downplayed by some and ignored by the majority. It is hoped that the RRR19 will broaden the discussion on the necessary steps needed to improve the situation.

BRAND ATLAS

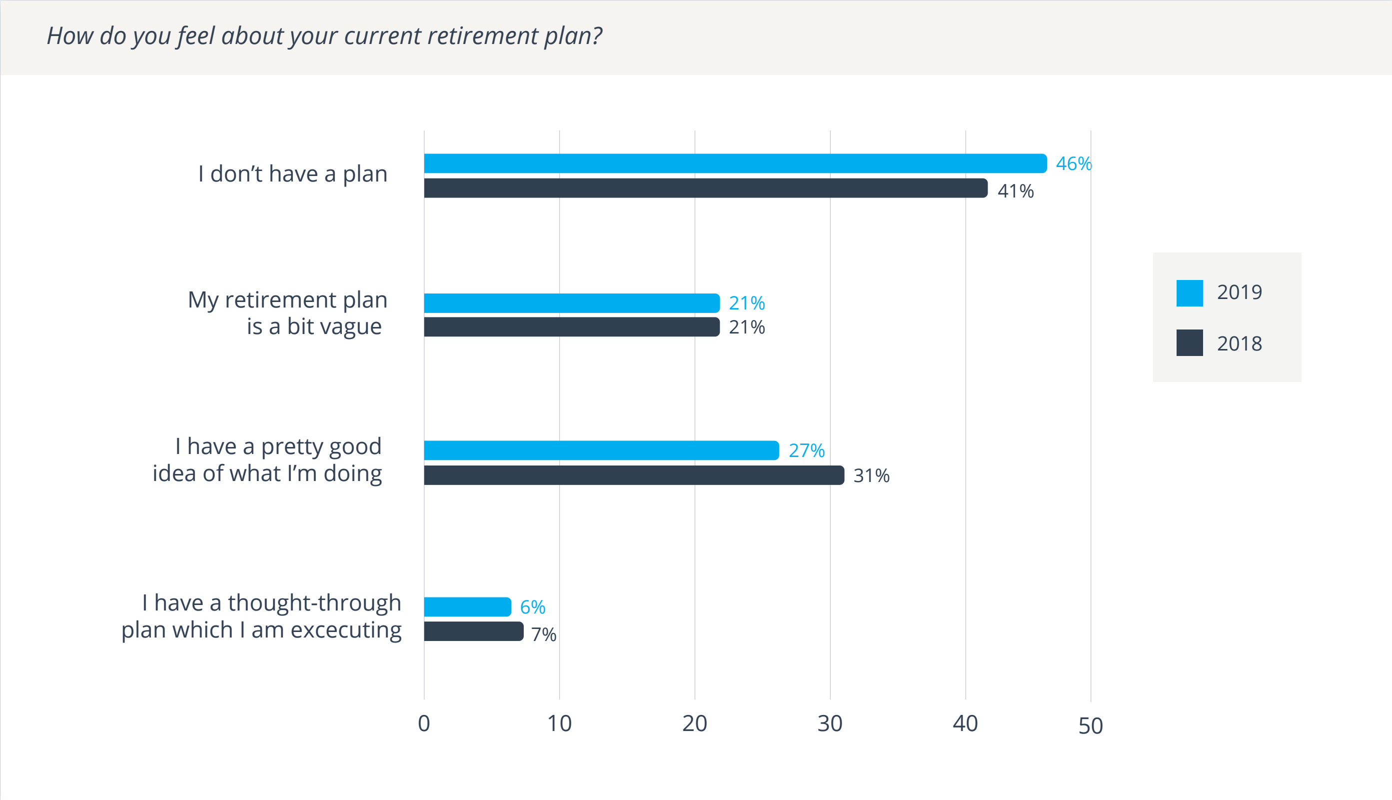
In 2019, at the behest of 10X Investments, the well-respected annual Brand Atlas survey of the South African population was expanded to include questions about people's savings and investment habits. Brand Atlas sampled the universe of 15.1 million economically active South Africans, as determined by Stats SA (namely those with a monthly income in excess of R7,600) through online completion surveys. All findings, analysis and interpretation within this report by 10X Investments are based on Brand Atlas data.

10X INVESTMENTS

10X Investments – an authorised financial services provider, licenced retirement fund administrator and investment manager – provides a range of simple, effective, low-cost solutions to investors.

Fees are a valuable tool for predicting future investment performance. The fees on 10X's retirement annuity are less than half the industry average. 10X invests in a mix of shares, property, bonds and cash to maximise growth, and relies on index tracking to deliver the returns of the market as a whole. 10X automatically adjusts portfolios as savers get closer to retirement to reduce risk. The disruptive asset manager manages in excess of R12 billion in private and corporate retirement investment funds.

Chapter 1:
What's the plan?



RRR18 identified a startling lack of preparation for retirement among South Africans. The results of this year's survey suggest that the South African savings crisis is not getting any better.

There has been a 5 percentage point increase in the number of people who say they don't have a retirement plan, from 41% last year to 46%. There is also a 5 percentage point decrease in the number of South Africans who feel good or pretty good about their retirement plan, from 38% to 33%. The proportion of South Africans who feel their plan is somewhat vague is the same as last year, at 21%.

The fact that 67% of people surveyed either have no retirement plan at all, or just a vague idea, highlights the need for more education on this topic. A significant majority of respondents just do not seem to have the tools or the know-how to prepare for a financially stable life after work.

A mere 6% of South Africans surveyed said they were executing a retirement plan that they had properly thought through. This figure, which is down from 7% last year, chimes with National Treasury's figure that only 6% of South Africans were on track for a decent retirement.

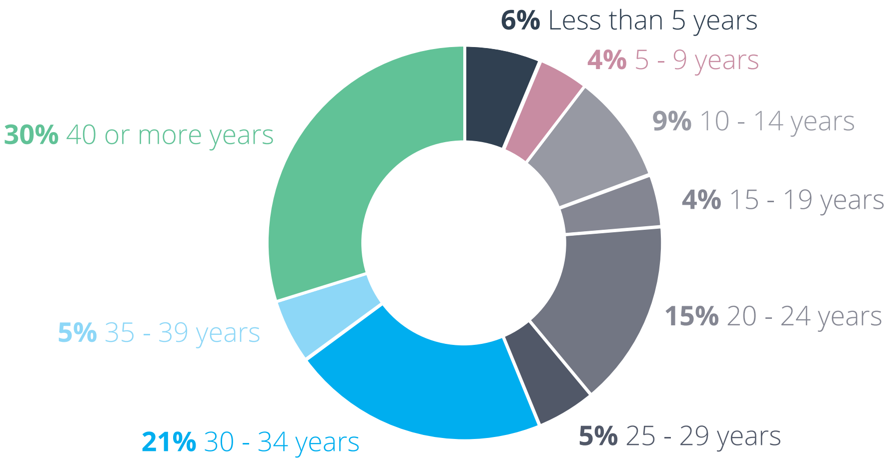
According to information released by StatsSA in April 2019, 49.2% of South Africa's total adult population of 35.1 million live below the upper-bound poverty line. Without action to tackle the retirement savings crisis in South Africa this will be pushed significantly higher as more and more of the retiring population slip into poverty.

Editor's note

After this point the universe of respondents is separated into two groups:

- People who said they have some sort of a plan: 8,093,602. Most of the report focuses on this group
- People who have no retirement plan at all: 6,977,422. Chapter 6 gives more information on this universe of people

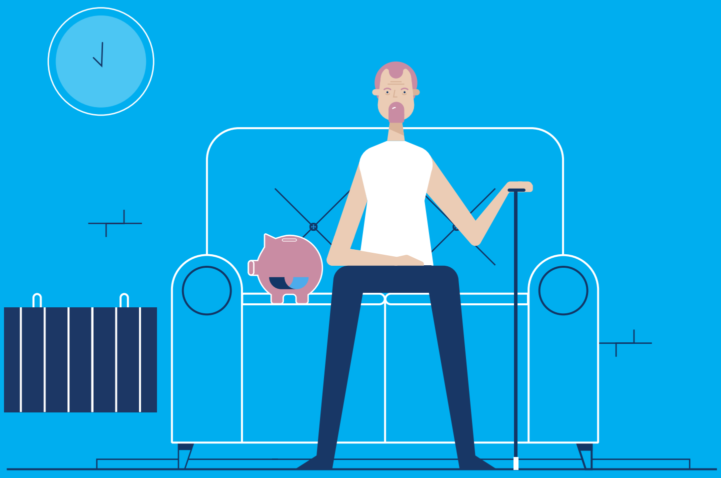
How many years do you think you need to plan for a comfortable retirement?



Percentages may not add up to 100 due to rounding

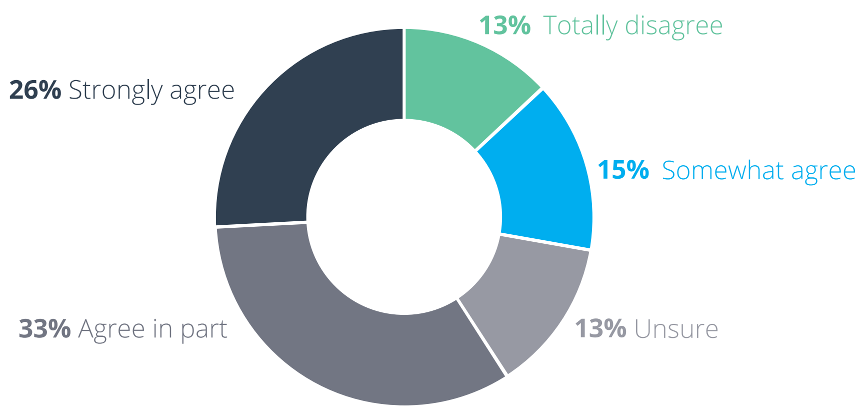
This year's report includes analysis for the first time about how long people think they need to save for retirement to ensure a comfortable one. Industry guidelines vary but few disagree that workers should be saving for retirement for most, if not all, of their working life.

Unfortunately, a large number of people believe that setting themselves up for a decent retirement can be done in a relatively short time, which is one reason so many people leave it too late. In fact, more than a third of South Africans believe that a comfortable retirement can be achieved through saving for just 24 years or less.



Chapter 2: **How is it looking? Are you on track?**

I worry about whether I will have enough money to live on after I retire



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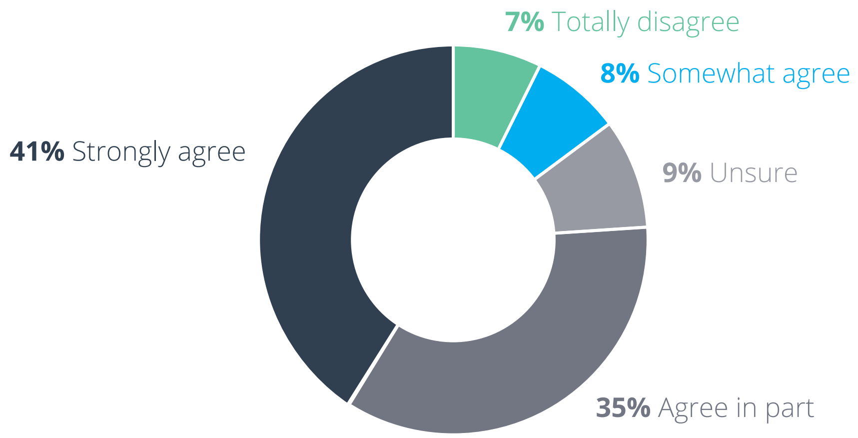
Of the respondents who said they had some sort of retirement plan, 72% felt concerned or were unsure that they would have enough to live on after they retired.

I expect that I will need to keep earning some money after I retire



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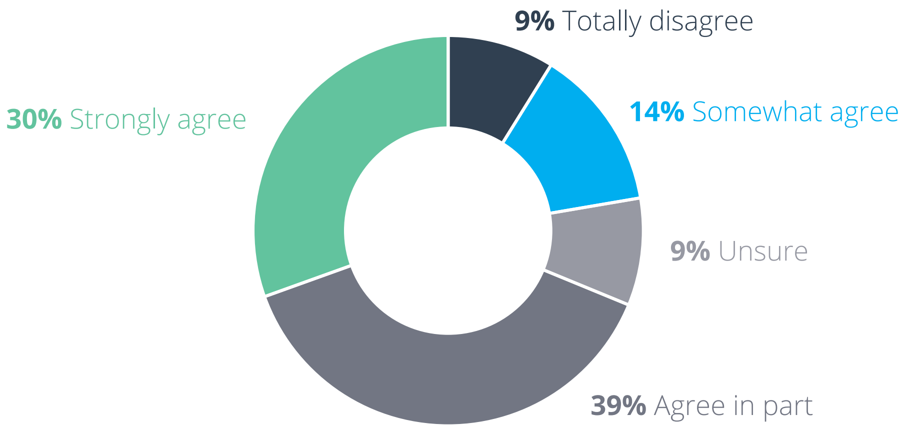
76% accepted that they would need to keep earning some income after they retired, over and above the savings and/or pension they had accumulated.

However, these responses, which suggest a level of realism about their situations, do not correlate with the view of almost 69% of this group (overleaf) that they expect to be able to retire with about the same standard of living they had during their working lives.

When I retire, I expect the same standard of living I enjoyed before retiring



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This contradiction shows a lack of appreciation of the consequences of not preparing for retirement. It also talks to the dire need for education about what is involved in setting yourself up for a decent retirement.

Replacement Ratio

When retirement is reached, financial obligations to maintain your current standard of living are likely to decrease. Take for instance cost savings from no longer having to commute to work (public transport bills, or fuel and wear and tear costs of a vehicle), and not having to provide for children.

There are also savings in terms of a lower average tax rate and higher income tax rebates over the age of 65 and then again over the age of 75.

Those who have been saving the recommended 15% of their gross salary each month into their retirement savings plan will also not have this expense.

Some expenses, such as healthcare costs, might increase but in general it is expected that your overall costs of living will decrease.

A reduction in financial obligations means that in retirement, a gross monthly income lower than the gross final salary should sustain one's lifestyle in retirement. The proportion of your final salary required to maintain your lifestyle is called your replacement ratio. It can range anywhere from 60% up to 100% of final salary, depending on the individual's situation.

In order to know whether your savings can fund this required income, you need to have an idea of what your final savings pot will be at retirement. A retirement savings calculator can help you work out whether you are on track to maintain your lifestyle in retirement based on your current saving habits and investment strategy.

The first step is for investors to take the time to understand what position they are in today. They must then work out what they need to do today and for the rest of their working lives to put themselves in a position where they are able to maintain their living standards in retirement.

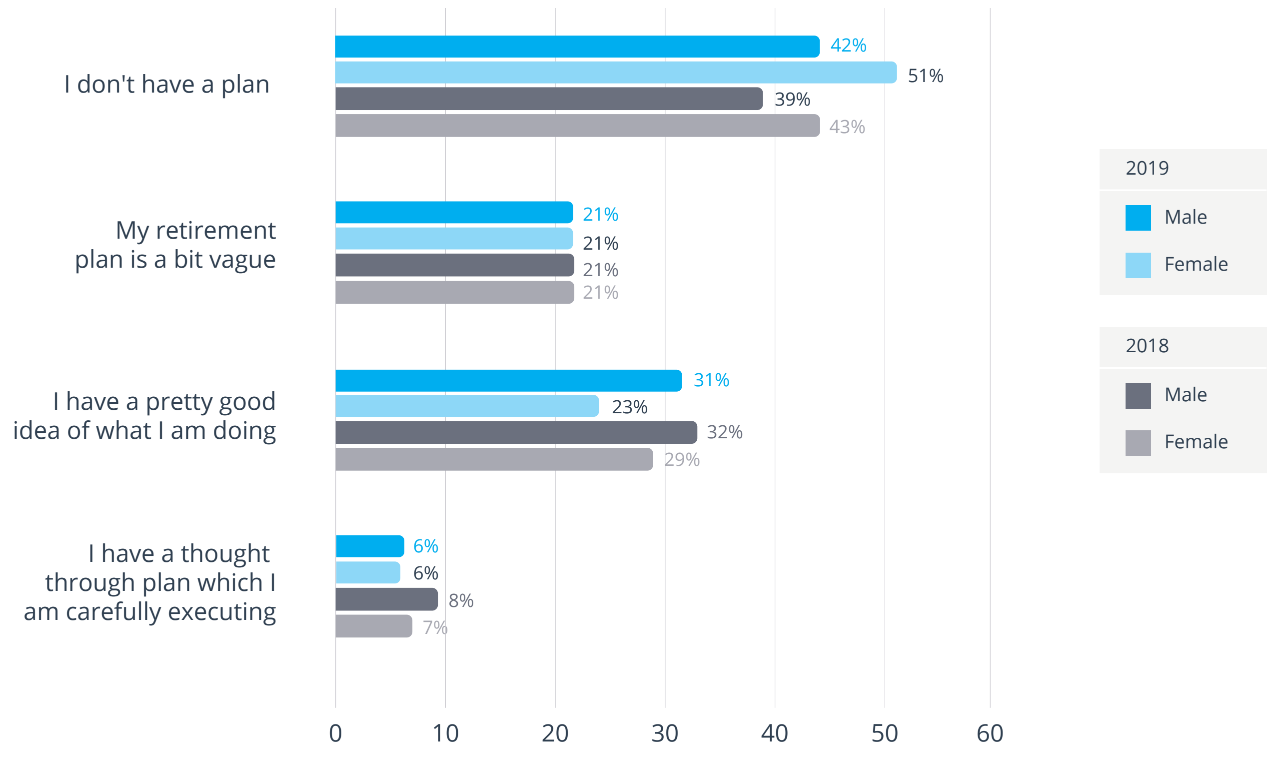
Chapter 3: **Women need more, have less – and reject the best chance they have of closing the gap**

According to StatsSA, women in South Africa earn approximately a quarter less (23%) than their male counterparts, a disparity that is often exacerbated when women's careers are interrupted during pregnancy and the raising of children. Also, women are expected to live longer than men on average.

Last year's report showed that women were, in general, saving less than men for retirement. The majority understood less than their male counterparts about the subject and were generally significantly less engaged with the issue.

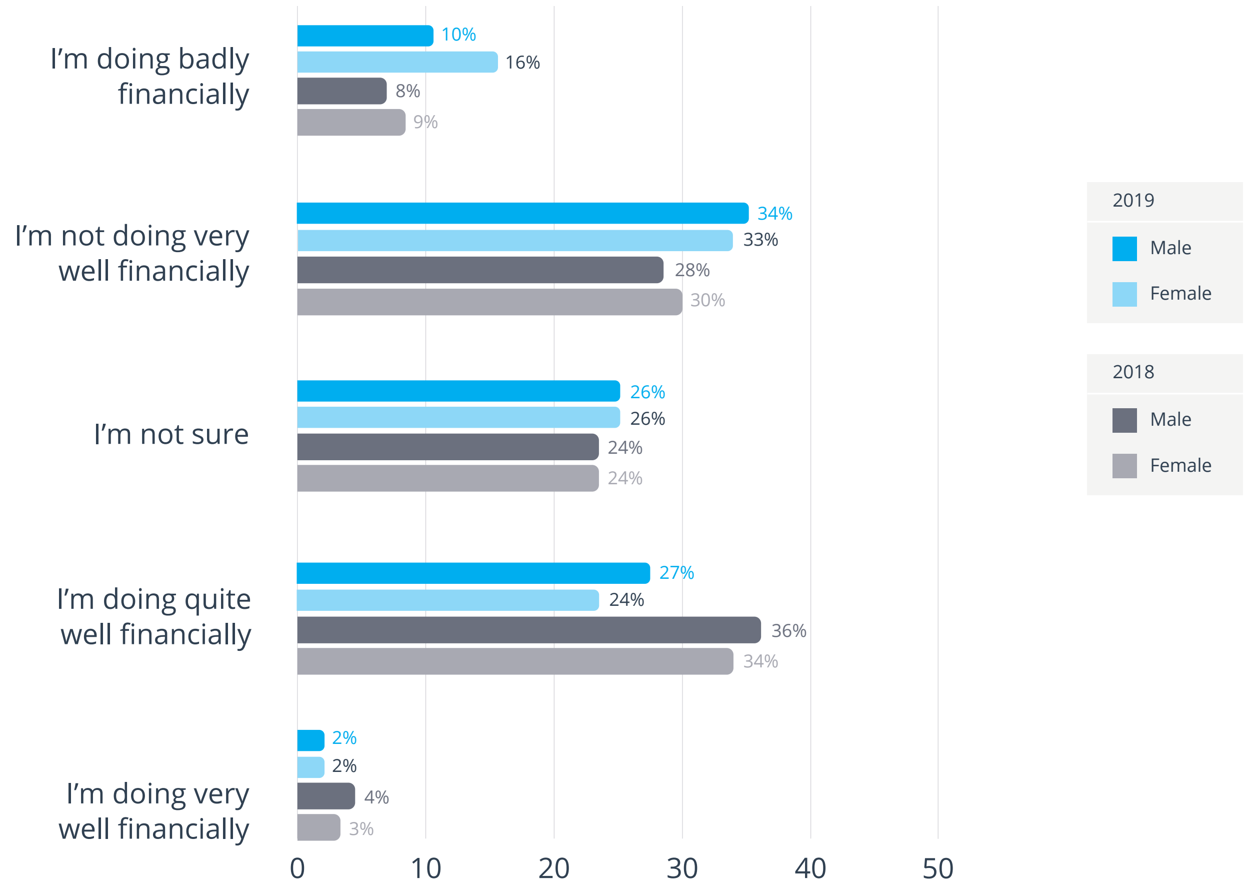
Unfortunately, while the data for this report shows that South African women do appear to be giving more thought to investing for the long term, even fewer women than last year are taking action and actually making plans and provision for retirement.

How do you feel about your current retirement plan?



This year's report shows that as many as 72% of women (up from 64% in 2018) either don't have a retirement plan at all or have only a vague plan, compared with 63% of men.

How happy are you with your financial predicament?



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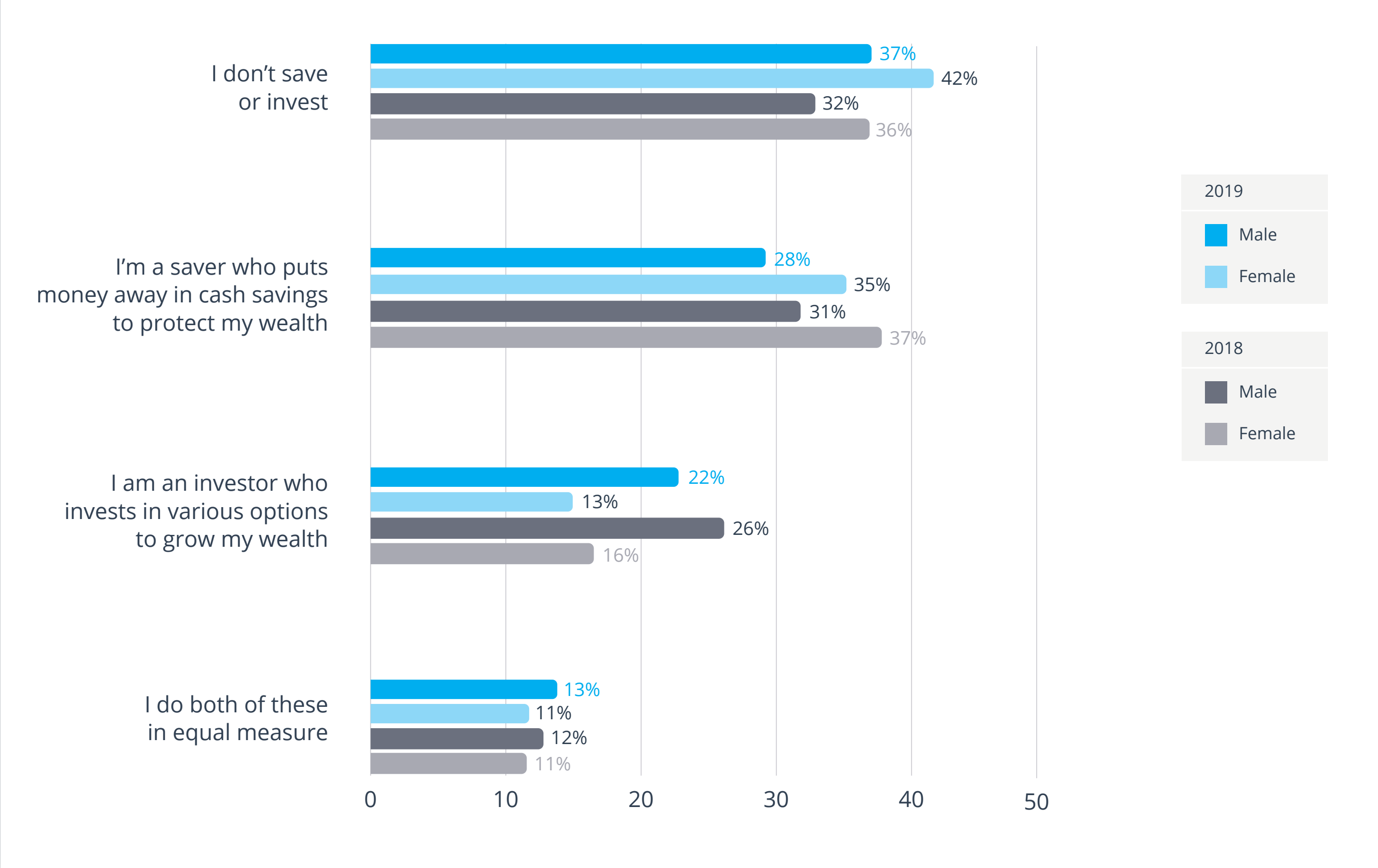
Compared to RRR18, the number of women who felt they were doing badly financially increased from 9% to 16%, with a total of 75% of female respondents believing they were doing badly or feeling unsure about their financial predicament.

The RRR19 confirms anecdotal evidence that times are getting tougher for South Africans of both genders, with a lower proportion of individuals thinking of themselves as doing either well or very well financially. For men, this figure has decreased from 40% to 29%; for women, it is down from 37% to 26%.

The data also shows that not only are more South African women in a precarious financial situation than men, women are less likely to be taking the steps required to narrow the gap.

Which of these investor types are you closest to?



Data from last year showed that, while women were actually more likely than men to save, they were less likely to invest their savings. A worrying statistic that is getting notably worse is the percentage of women who neither save nor invest: this is up to 42% from 36% in 2018.

This deteriorating trend reinforces RRR18 findings, that although in general women are better savers than men they are less likely to invest their savings for growth.

Investing in a well-diversified, high-equity portfolio and keeping fees low is the most effective way to grow money over the long term.

Unless women reverse the current downward trend and start investing with a long-term perspective, they have little chance of beating inflation and generating a decent income in retirement.

Financial knowledge and misunderstanding

While the survey shows that a higher proportion of women (33%) than men (27%) believe that 40 or more years' worth of planning and investment is required to set up a comfortable retirement, fewer women than men appear to have the resources to make this happen.

A total of 75% of female respondents acknowledge the reality that they will have to continue generating an income after they retire to supplement whatever savings they have. Less realism is exhibited when people think of their lifestyle in retirement: 67% of women surveyed expect to be able to maintain the same or a similar standard of living in retirement, while 70% expect their retirement savings to last 15 years or longer.

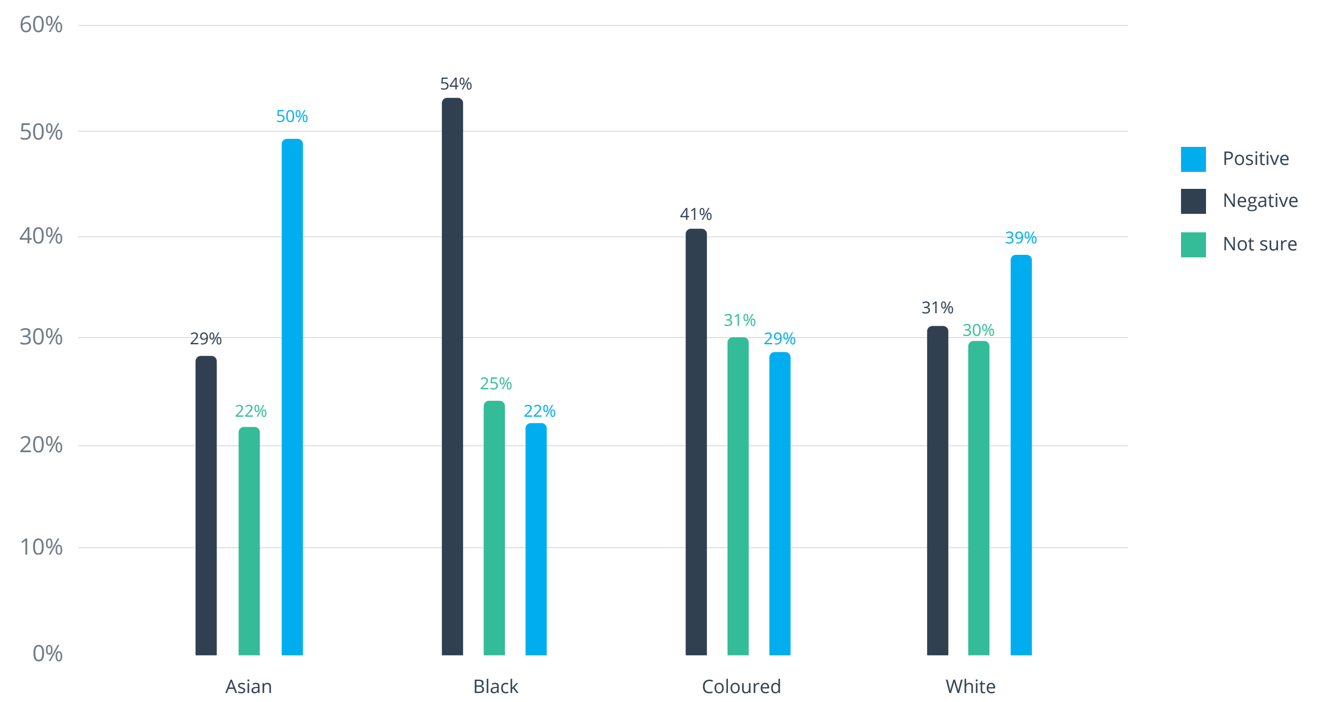
Coupled with this, the survey showed that women have less to fall back on than men do, in terms of both fixed and financial assets, with 38% of women reporting having no assets whatsoever, and another 42% saying they had less than R1 million worth of assets.

Not much of a safety net at all.

Chapter 4:
The racial divide

Given South Africa's history, it is not surprising that stark differences in people's financial situation continue to present along racial lines, as evidenced in the graph below. RRR18 showed pronounced differences in general in how different racial groups were preparing for retirement. As expected, RRR19 found that racially-based differences continue to endure along similar lines. These differences are often described as cultural but frequently they are circumstantial.

How would you rate your financial predicament?



Percentages may not add up to 100 due to rounding

Historical context

White South Africans have been eligible to receive a state pension since the 1920s, but it was not until the 1944 Pension Laws Amendment Bill, that the old-age pension was extended to other race groups. However, even then, eligibility, frequency and value of these payments differed according to the arbitrary and punitive policies of apartheid.

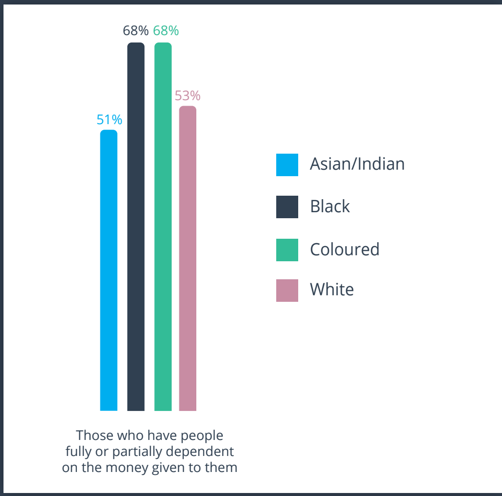
Wealth accumulation via traditional avenues of investing and property ownership was not available to black South Africans, who had little or no access to financial services. Employers were not obliged to make financial contributions to employee retirement funds and those who did were generally discriminatory. Black civil servants, for example, saw up to 60% lower employer contributions to their pensions than their white counterparts. It stands to reason that generations of black employees were unable to provide for their own retirement using the traditional savings avenues available to whites.

In many South African communities, supporting older generations who were not able to save for their own retirement, largely thanks to apartheid era discrimination, and helping the next generation with financial contributions towards studying, is seldom considered voluntary.

This notwithstanding, an increasing number of people across all demographics and incomes are beginning to experience what is generally referred to as "black tax", to a greater or lesser extent.

Additional family responsibility (aka Black Tax)

Black Tax is a relatively new term that colloquially describes the additional financial burden of supporting family and friends that the (largely black) emerging middle class has in South Africa. For many people in communities that are previously disadvantaged this is frequently less of a choice than an obligation.



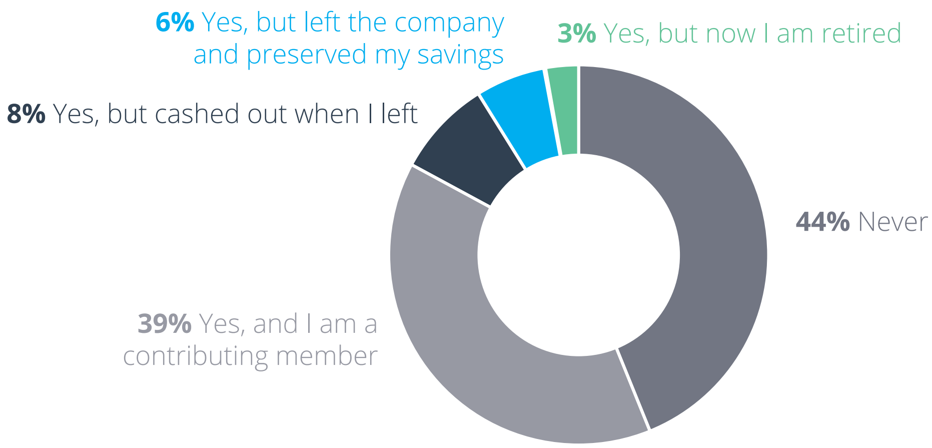
In some cases, the younger generation may have no choice but to support elderly parents and other relatives who have no retirement savings at all ie no other means of survival. In the case of other remittances, such as paying for younger family members' education, "Triple Jeopardy", a 2019 report by the University of the Witwatersrand School of Governance , found that young, black working people felt obliged to help others because it "was expected from me to do so by my family", "it is important to support others" or "this is just the way things are done".

The additional financial burden on what is known as the sandwich generation (who must support their own children as well as members of the older generation) results in added financial pressure and is one of a number of reasons that people say they just cannot afford to save for their own retirement.

That said, the evidence suggests that 'black tax' is not purely a racial phenomenon, it is a common factor of South African society. It does, however, follow that historically disadvantaged and poorer communities will feel the burden the most.

Chapter 5:
What about the role of employers?

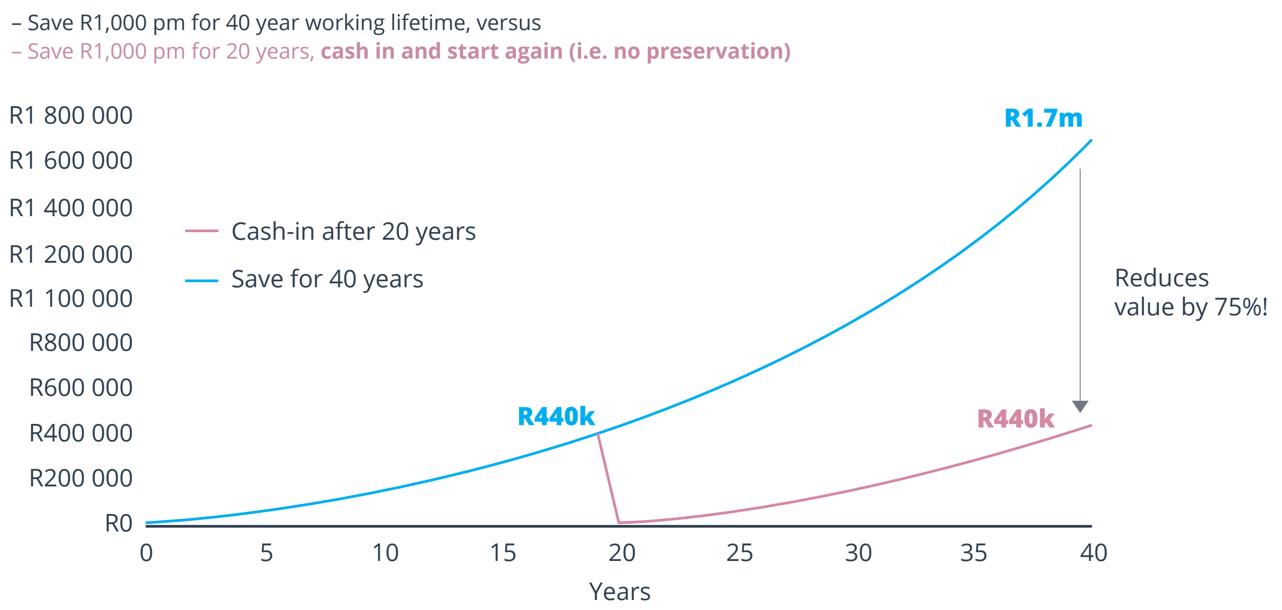
Have you ever been part of a corporate retirement savings scheme?



More than half of those survey respondents who said they had some sort of a retirement plan said they had at some point belonged to a corporate retirement savings fund. More than half of those respondents that have left a corporate retirement savings scheme said they had cashed in their savings when they left that job.

When changing jobs, retirement savers have the option to preserve their savings, either by preserving their benefit in the current retirement fund or transferring their benefit tax-free to a new employer's fund or to a preservation fund. However, many members opt to cash out their benefit, which is subject to tax, and this will result in them severely denting their momentum for achieving their retirement goals. Statistics from the wider retirement savings industry suggest that the national average is, in fact, significantly higher than the 57% of respondents in this survey who claimed to have cashed out when exiting a fund.

The power of compounding, the need for preserving

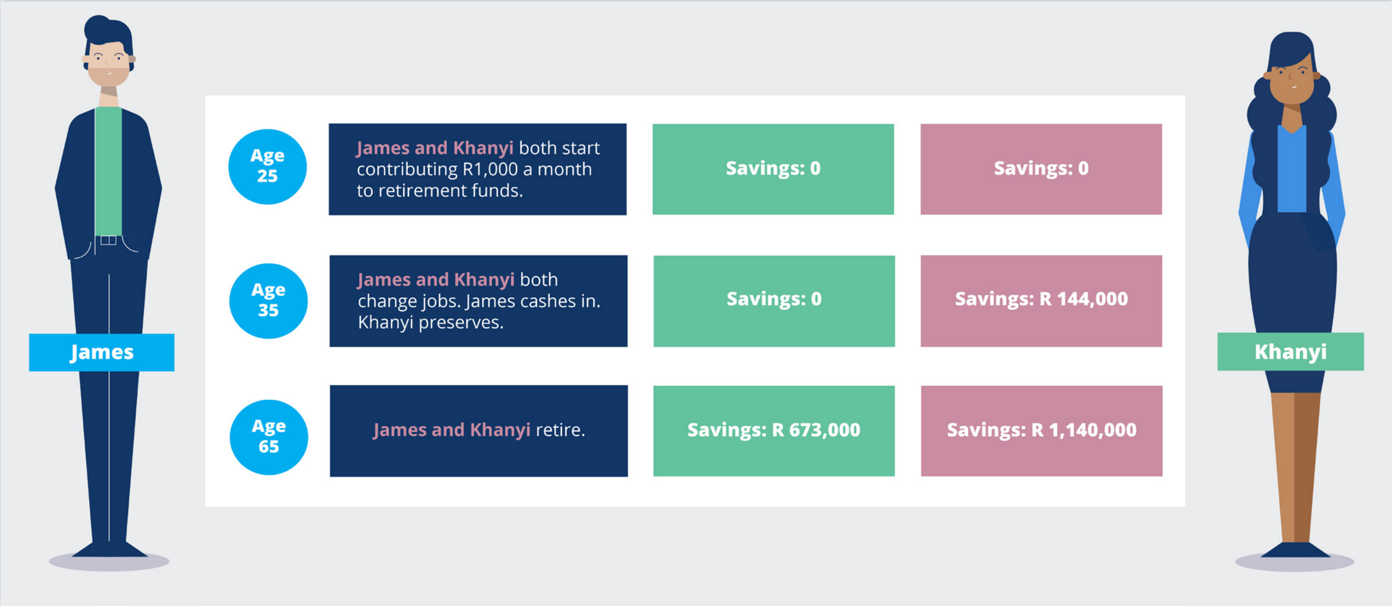


Source: 10X Investments; saving R12,000 pa, growing 1% pa in real terms, earning net real return of 5,0%

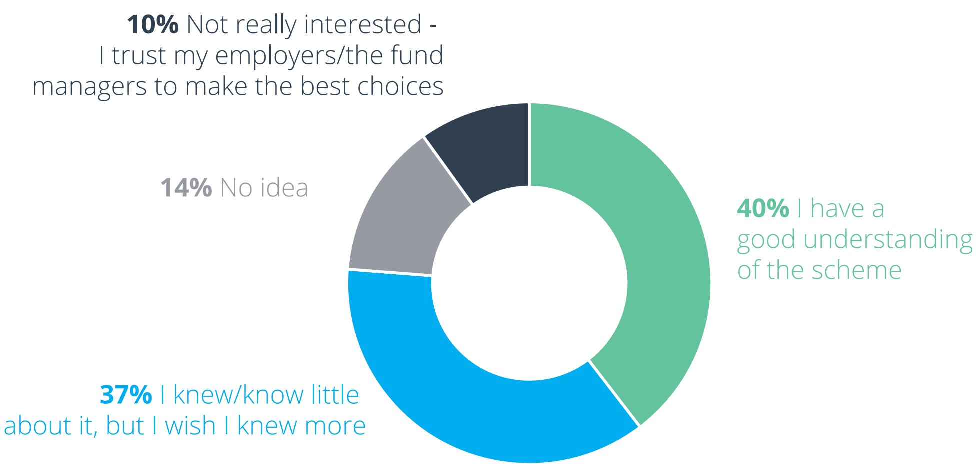
Cashing out retirement savings when changing jobs is one of the classic retirement saving mistakes. Cashing out means starting again from the beginning and, far more damaging, losing out on the compound growth that early savings generate over the years, which is one of the real game changers in long-term saving.

The previous graph shows how large a portion of a retirement fund early savings make and the damage that is done by cashing out.

Bottom line: Never stop saving, increase your saving as your income increases, and never cash out!



What is your level of knowledge about your corporate retirement savings scheme?



Percentages may not add up to 100 due to rounding

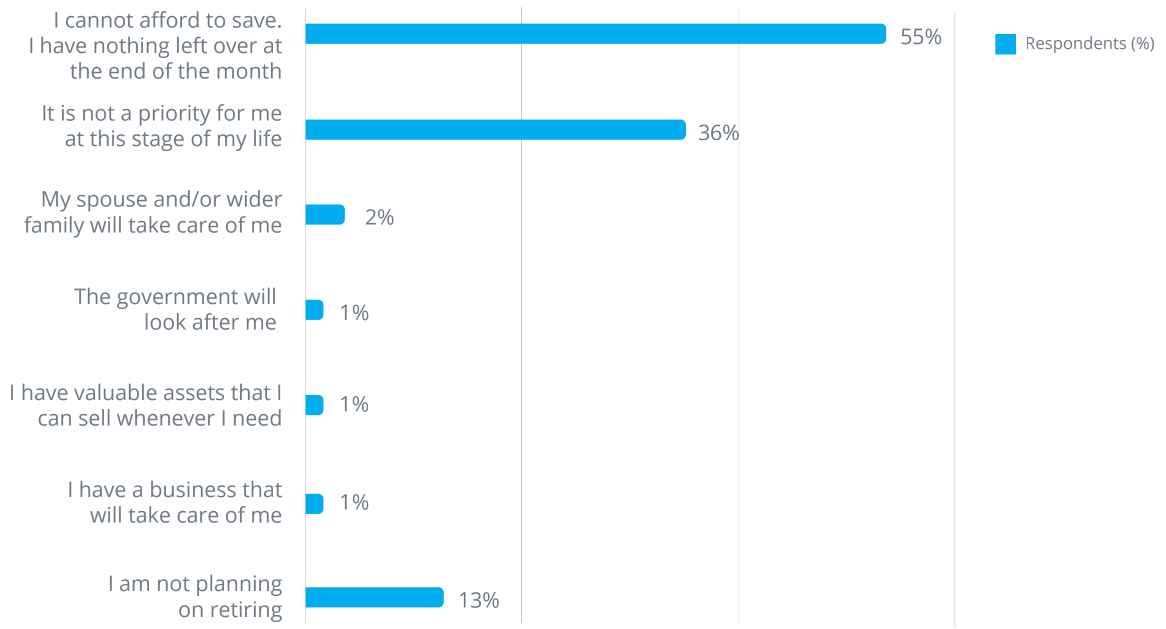
Respondents who at some time belonged to a corporate retirement savings fund were asked about their level of knowledge about the scheme. Of the total, more than 60% said they knew little or nothing about the fund or were not interested, with 37% wishing they knew more.

The fact that the majority of respondents know so little or are not interested in knowing anything about their fund shows a worrying lack of engagement with corporate retirement funds. This could be due to a lack of proper communication from the employer and/or fund to the members. It could also be because of the complexity and lack of transparency in many corporate scheme offerings. It is quite likely some combination of the two.

This data highlights the fact that most members of retirement funds are poorly informed and/or ill-equipped to understand their retirement funds. This is effectively a lack of empowerment with fund members frequently distancing themselves from aspects of their fund they do not understand. These two factors are mutually reinforcing: the more complex the fund seems the more likely it is that the members will be reluctant to ask questions.

Chapter 6:
The road to ruin … not saving

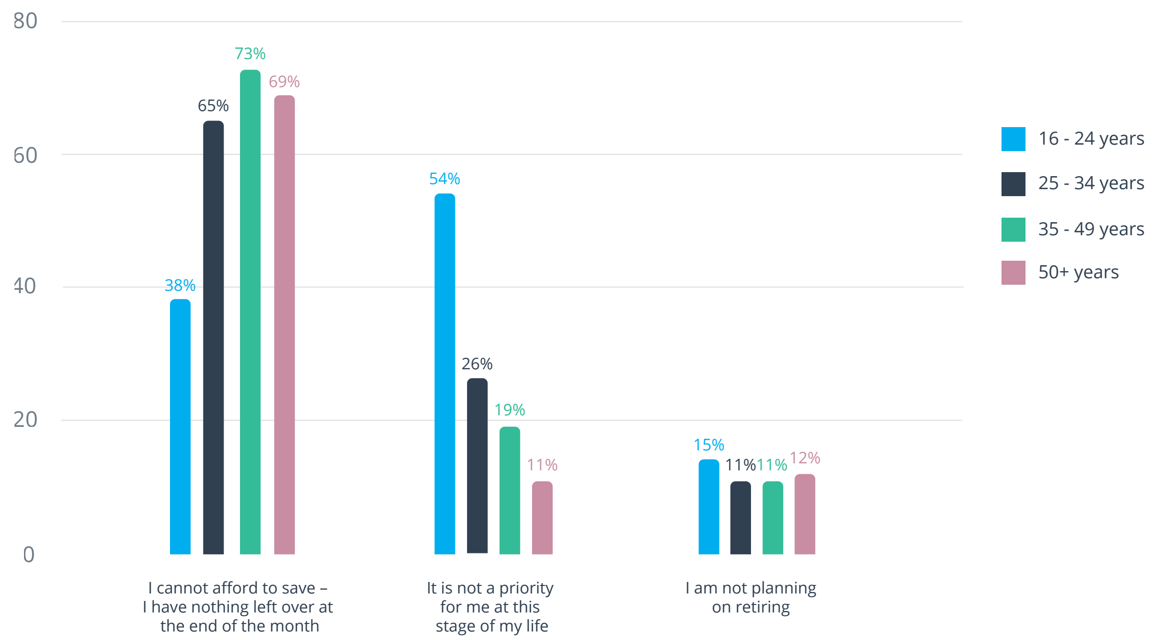
Why do you not have a retirement plan?



Of respondents who said they were not saving for retirement, the majority (55%) said they simply could not afford to save money towards retirement, and 36% said retirement saving was not a priority for them at this stage.

As might be expected, younger people are more likely to say retirement saving is not a priority (80% of people under 35 in this group said retirement saving was not a priority at this stage).

Why do you not have a retirement plan?

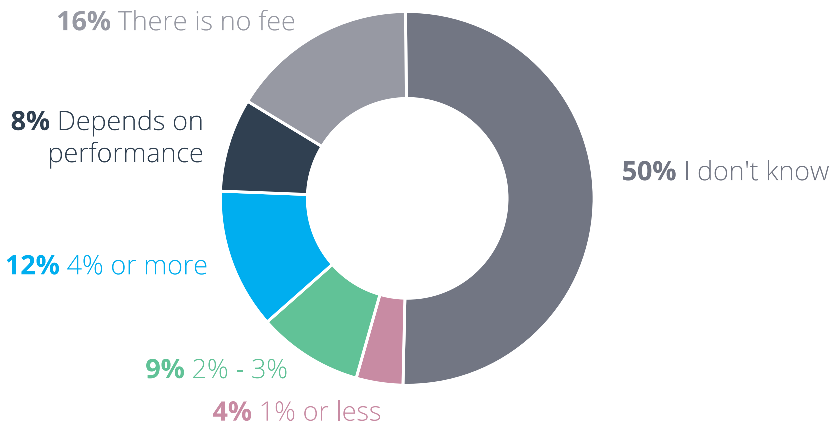


The data shows that many South Africans prioritise their current lifestyle, at great expense to their future selves. Most are leaving it perilously late to start applying their minds to implementing a retirement plan. It's a terrible trade-off because while current lifestyle improvements made by not saving, or saving too little, are marginal, the resultant drop-off in retirement will be dramatic.

High fees are a contributing factor in South Africa's retirement crisis. Seemingly small regular charges against savings compound to leave a huge hole in people's pensions. For example, in the context of a consistent 40-year savings regime, someone paying 3% in fees rather than, say, 1% pa, receives almost 50% less money at retirement.

The road to ruin ... fees

Fee paid in total for current retirement annuities



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Half of respondents in the survey with a retirement plan didn't know what fees they paid. Another 16% say there is no fee. The fee paid on an investment might be difficult to find (and almost impossible to understand) but you can be sure there will be a fee.

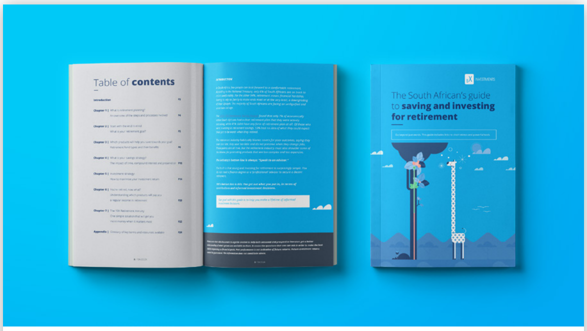
The average policy-based RAs sold by the large insurance companies in South Africa cost close to 3% pa, made up of around 0.75% for advice, 0.25% for administration, 1.5% for investment management and 0.4% for Vat. Even though there are low-cost alternatives on the market, charging less than 1% pa and delivering similar or even superior performance, most of the industry continues to sell the more expensive versions ... and get away with it.

South Africa's retirement savings timebomb is ticking ever louder. At the same time, the country's unemployment crisis seems to be running out of control, and people are living longer lives.

South Africans need a wake-up call. Retirement saving is not discretionary spending but rather a necessary long-term investment for every working South African. It is not something that should be considered only once other adult responsibilities rear their head, or worse still, once these have been met, such as when the bond is paid off, or the children have left home. Lifestyles should be adjusted to the saving that is required, not the other way around. This report talks to the financial stress that most people are under, which leads to them under provisioning for retirement. Whilst it is recommended that everyone save 15% from day one, it is just not practical for many in this climate. What is practical, however, is to take steps such as educating yourself, engaging with your options and, crucially, keeping fees down.

Paying low fees is the easiest way to increase savings without impacting take-home pay or living standards. It is the path of least resistance for every saver to ensure a better outcome for their future self.

Planning for retirement is not that complicated.
Set yourself up for success by downloading these free e-books.



The SA guide to saving and investing for retirement

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- Calculating your retirement goal
- Investment vehicles

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