

Flawed financial thinking revealed by Just retirement tracking study

Over 80% of a sample of South African pre-retirees and retirees are confident in their financial planning ability, as revealed in an independent tracking study commissioned by retirement income specialist Just . Eight out of 10 said they've set financial goals and are working towards them, while two thirds felt they've become quite frugal with their money and are putting more thought and planning into their finances.

These results resonate with the growing global trend of an increased interest in financial planning. A recent World Economic Forum report revealed that 64% of the younger Generation Z (also known as Gen Zers born mid 1990s onwards, following millennials) have already started to research on their own and talk to others about effective financial planning. It also showed that Gen Zers begin to research financial planning at an average age of 13.

While such studies show a positive step in the right direction, Just CEO Deane Moore remains highly concerned about South Africans' misguided perceptions of retirement. He thinks that everyone deserves a fair and secure retirement, but the Just Retirement Insights 2019 illustrated a huge gap between the reality of retirement in South Africa compared to respondents' expectations. While 62% of those interviewed said they plan ahead and do not live from day to day, Moore claims that the current low level of retirement savings held by South Africans does not match up against respondents' expectations of retirement income.

But, if we think we're proactively planning for retirement, where exactly are we going wrong and what can be done to steer us in a more prosperous direction? The Insights identified that a contradiction exists between people's appetite for risk versus the reality of their financial situation.

Risk appetite does not add up

Almost two thirds of pre-retirees and retirees interviewed don't mind taking risks and are willing to do so to reap rewards. In spite of this, two out of five people say they cannot afford to lose any of their retirement fund money before it affects their retirement plans. Additionally, given

the poor investment returns of the past five years, South Africans who are currently retiring are also likely to find their assets worth about 15% less than they would have been in 'normal' investment conditions.

"Just strongly believes in using the right tools to manage risk in retirement, including insurance for longevity risk and investment strategies for investment risk and inflation. Minimising risk to ensure a retirement income that is sustainable and guaranteed is surely more important than maximising risk for the highest income or best returns?" poses Moore.

A strong need for independent financial advice

Just's research showed that only four out of 10 pre-retirees and retirees use (or intend to use) the services of a professional adviser. Only 26% of respondents are considering discussing their retirement journey with an expert, yet over half have not yet calculated how much they need each year to live off in retirement.

"Without an accurate understanding of your current financial situation and discussing your unique retirement needs, it is almost impossible to set realistic and achievable financial goals, let alone work towards them. The assistance of an independent adviser should not be restricted to high-income earners only and we strongly recommend that everyone approaching retirement compare product features and pricing of available retirement solutions with a trusted specialist, in order to make informed choices. This should also help to close the gap between the expectations and reality of retirement."