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THE RETIREMENT INDUSTRY NEWSLETTER



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LOCAL NEWS

Most people can’t afford to save for retirement

YOU SHOULD start saving for retirement today, even if you can afford to put away only a small amount each month.

High Unemployment and debt, coupled with rising electricity, food and fuel costs, are having a devastating impact on South Africans’ budgets, leaving them with little or nothing to put away for retirement.

This is according to Mica Townsend, the business development manager at 10X Investments, who was commenting on the company’s 2019 Retirement Reality Report, which was released last month.

The report paints a bleak picture of South Africa’s retirement-saving landscape. It shows that 67percent of economically active South Africans either have no retirement savings plan or have only a vague idea of one.

It also found that 55 percent of South Africans are faring so poorly that they have no money left at the end of the month to put towards any form of retirement plan.

Townsend says that, according to the report, those who are saving for retirement aren’t really following a plan; they are just hoping for the best.

“What we also found, even more worryingly, is that from 2018 to 2019 all of those metrics got worse. So, the amount of people with a plan reduced, and the amount of people who felt they were on track for retirement, or had any idea how they were going to sustain themselves in retirement, had got worse.

“It has been a tough year financially, and a lot of people save what’s left after everything else has come out - the fuel, groceries, electricity. One of the questions we asked was: ‘If you don’t have a plan, or if you are not saving for retirement, why not?’”

Townsend says respondents said either that they have nothing left to save or that saving for retirement was not a priority right now.

Townsend advises consumers who don’t have a retirement plan in place to start saving towards one, no matter how little they can afford.

“You need to start, even if it is R100 - you can work out how to increase that each month - but you need to start somewhere.”

She says consumers should prioritise their spending by limiting or cutting on luxury items.

“In the same way you were to pay for your electricity or buy your petrol, you need to say, ‘whatever happens, this amount is going towards my retirement’, and then you do the luxuries and the nice things with what’s left over.

“By not doing something about it now it is just affecting your future. You are still going to suffer; you are just delaying that, and by retirement you have only few other options,” says Townsend.

She says consumers who have unsecured debt or a significant amount of debt should pay it off as soon as possible. Debt should not be carried over into retirement.

Townsend says that once you have paid off your debt, you should avoid taking on new debt, but use the “extra money” to save towards retirement.

“Discovering that your pension is worth far less than expected following years of saving is likely to be devastating - even more so if you have been saving diligently, but your investment growth has been eaten up by high fees. In other words, someone else is retiring well on your sweat and toil. By then it may be too late to ensure a comfortable retirement for yourself, and you may be forced to rely on financial support from your children. Unfortunately, this is an all too common predicament for South Africans,” says Khwezi Jackson, an investment consultant at 10X Investments.

Hilan Berger, the head of institutional business development at 10X Investments, says the report shows that saving for retirement is a low priority for South Africans and that the bigger picture looks bleak.

“South Africans need a wake-up call. Retirement saving is not discretionary spending, but a necessary long-term investment for every working South African,” says Berger.

Personal Finance | 2 October 2019

How much should you have saved by age 25 through to retirement?

There are performance reviews to track your progress at work. Academic grades to track your understanding of the subject matter at college. And scales to track your progress at losing weight. But, when saving money, how do you judge whether you're on track for future financial security or veering off the side of a financial cliff?

There isn't a simple answer to that question. There are so many variables to account for. But that doesn't mean we shouldn't have a rough, somewhat directional guideline, right?

Well, I've scoured the internet, looking at the suggestions of multiple different financial experts. And I've combined their advice to form a savings tracker to guide you through the decades.

Saving Money in the Tumultuous 20s

Your first paycheck after leaving college is probably one of the most exciting. You're finally an adult, you're the epitome of independence and you're earning your own living. No more relying on your parents to get by.

But this is also the perfect time to start saving for your future. You have decades ahead of you to take advantage of a smaller savings rate and compounding growth.

So, how much should you be saving during those early years? Take a look at the table below:

Age	Saved	Example Salary (escalated at 5% inflation)	Total Savings
25	0x	R200 000,00	R0,00
26	0,2x	R210 000,00	R42 000,00
27	0,4x	R220 500,00	R88 200,00
28	0,6x	R231 525,00	R138 915,00
29	0,8x	R243 101,25	R194 481,00

In this guideline, the amount you should have saved increases by one fifth each year. Essentially this is an annual savings rate of 20%.

Also, for the example, I've increased the salary each year by the South African inflation rate of 5% (but this can be changed based on your home country). I've also assumed no savings in your first year of earning an income because: YOLO! ***Full Report:*** ***https://www.iol.co.za/personal-finance/retirement/how-much-should-you-have-saved-by-age-25-through-to-retirement-33657723***

Personal Finance | 1 October 2019

Retirement product focuses on income

A new product for retirees, the Essential Income Fund from specialist asset manager Marriott, allows you to "spend the income, not the capital".

This article was initially published in the 2nd-quarter 2019 edition of Personal Finance magazine.

Four years of disappointing equity market returns have left many investors feeling anxious about their financial futures. The common narrative used to ease concern is that investing is about the long-term and that better returns are around the corner. This is all good and well pre-retirement when investors are continuously making contributions. However, it is not so simple for retired investors who need income from their investments for 20 to 30 years.

Unlike pre-retirement, the requirement to continuously withdraw from a portfolio significantly increases the risk of running out of capital (longevity risk) when market returns are poor. The task of successfully navigating a low-return environment is complicated further with a choice of over a thousand unit trusts in South Africa. Remarkably, even with all this choice, retirees are still encouraged to draw only four percent from their savings to ensure a sustainable retirement income. This is far too low for the majority of retirees (the average drawdown in South Africa is about 6.6 percent) and this suggests an alternative approach is needed.

Income-focused approach

Given the challenge facing retirees, Marriott has launched the Essential Income Fund. Designed and managed for South African investors looking to maximise their retirement lifestyles without the risk of running out of capital, the Marriott Essential Income Fund offers a simple, low-cost and effective means for retirees to navigate the current low-growth environment.

With an exclusive focus on retired investors, we have applied our signature income-focused approach to managing the Essential Income Fund. The portfolio's key differentiating factors are outlined below:

1. Reliable, growing income. When an investor requires an income from his or her investment, Marriott recommends drawing only the income produced by the investment, which we refer to as the matching principle. By drawing only the income produced, investors can be assured that their capital base will not be eroded (the biggest contributor to longevity risk). To achieve this the Marriott Essential Income Fund invests exclusively in companies that have been able to pay reliable and growing dividends consistently over the long-term, such as, Clicks, GrowthPoint, Sanlam and Standard Bank. The dividend track records of these companies are illustrated in the accompanying four graphs.

2. Optimal long-term asset allocation. The Essential Income Fund currently produces a gross yield of 6.9 percent, which should grow in line with inflation over time. This has been achieved through investing in an optimal mix of both growth and higher yielding assets classes as outlined in Table 1 below. The fund's asset allocation will remain relatively stable over time as we believe this is the right mix for investors looking for the highest sustainable level of inflation-hedged income.

3. Low cost. The annual management fee of the portfolio is 0.75 percent, which is highly competitive. ***Full Report:*** ***https://www.iol.co.za/personal-finance/retirement-product-focuses-on-income-31159459***

Personal Finance | 2 October 2019

5 ways to make the most of your retirement

If you were retrenched tomorrow, with no prospect of finding another full-time job, an immediate reaction would be concern about your loss of income.

Apart from financial worries, you may feel you are no longer of any use to the world, that you have been "discarded" by society, and your life has lost purpose and direction. And if your mooching around the house in a sullen state, with nothing to give you a sense of purpose and fulfilment, becomes protracted, your health is likely to take a knock, not to mention your relationships with your loved ones.

Research has found that retirement is not very different from retrenchment for many people when it comes to their mental state subsequent to the event.

In Personal Finance, we focus a lot on the number-crunching aspect of retirement planning - are you putting aside enough to be able to retire comfortably? How much is enough?

Financial planners focus on this side of things - it is their area of expertise. But there is a shift in the financial planning profession - which I highlighted a few weeks ago - towards the “softer”, human side of planning. Machines can crunch numbers; financial planners, if their profession is to thrive in the age of artificial intelligence, need to develop closer relationships with their clients and their families, sharing in the family’s fortunes, misfortunes, ambitions and achievements.

If you are in the latter years of your career and approaching retirement, your conversation with your financial planner needs to be about more than just the money.

I recently attended two workshops on the non-financial aspects of retirement - one for people nearing or entering retirement, by the Bridge Foundation, and one for financial planners, by the South African Independent Financial Advisers Association - and came away with the following lessons, among others, for prospective retirees:

1. Retirement is not a holiday

I have stated in this column that the word “retirement” should be retired, not because we don’t stop working at some stage, but because of its outmoded connotations. A common one is of a laughing, grey-haired couple strolling hand-in-hand along the beach as the sun sets.

You should build wealth to achieve financial freedom, and once you reach the point in your life when you don’t have to work, whether that comes at 55 or 70, you may enjoy full-time leisure time for a while, but are unlikely to enjoy it indefinitely. As Dr Anne Blacklaws from The Bridge says, you’ll soon tire of golf if you’re playing more than a couple of days a week.

Holidays are enjoyable because they are a break from work - there is no such thing as a permanent holiday. You need to be involved in activities that keep you mindfully occupied and give you a reason for getting up off that couch and away from the TV screen. Many successful retirees find fulfilment in giving back to society by doing volunteer work at charities and NGOs. Others are able to remain active in their careers and slowly scale back, perhaps being kept on by their employer as a freelancer or consultant.

2. Relationships are important

Relationships change on retirement: you no longer have the daily social interaction with work colleagues and are suddenly spending a great deal more time with your partner. You and your partner’s plans for this new era in your lives should be aligned. Furthermore, you actively need to work on and nurture your

relationships with family and friends, and reach out and make new friends. Loneliness can be the bane of old age, leading to depression and ill health.

3. Carefully consider where you will live

Retiring to a remote seaside village fits in well with the happy-couples-on-beaches concept of retirement, but would it really lead to a happier, more fulfilled, healthier life? You might find yourself out in the sticks, vulnerable to crime, with family and friends too far away to see regularly, and minimal infrastructure in the way of healthcare facilities.

Retirement villages are a popular option because they offer the healthcare facilities and security that older people need. A drawback is that you will be living among people of your generation and older. Research on so-called “blue zones” (see box), suggests that older people thrive best in a supportive multigenerational community that includes younger adults and children.

Personal Finance | 1 October 2019

ASISA: Classification of SA hedge funds underway

South African hedge fund managers have begun the process of categorising their hedge fund portfolios in line with the provisions of the new Hedge Fund Classification Standard, which was recently introduced by the Association for Savings and Investment South Africa (ASISA). The new ASISA Hedge Fund Classification Standard comes into effect on 1 January 2020.

Sunette Mulder, senior policy adviser at ASISA, says the aim of classifying all hedge fund portfolios, including hedge fund of fund portfolios, into different categories is to make it easier for investors to assess and compare funds and to select hedge funds appropriate for their risk profiles and investment portfolios.

In April 2015 South Africa became the first country to put in place comprehensive regulation for hedge fund products. The regulations provide for two categories of hedge funds, namely Qualified Investor Hedge Fund portfolios and Retail Investor Hedge Fund portfolios. As a first step, this required the hedge fund industry to convert their hedge fund products to structures that conform to the provisions of the Collective Investment Schemes Control Act (CISCA).

Mulder says the next step is for hedge fund managers to classify all hedge funds in line with the provisions of the ASISA Hedge Fund Classification Standard.

“The Standard is a key tool for investors and their advisers in that it provides a framework within which hedge fund portfolios with comparable investment objectives and investment universes are grouped together. The ability to compare like with like when making investment choices is critically important.”

The four tiers

The Standard provides for four tiers of classification. The first tier splits hedge fund portfolios into either Retail Investor or Qualified Investor portfolios.

The second tier classifies hedge fund portfolios according to their geographic exposure:

- **South African** portfolios invest at least 60% of their assets in South African investment markets.
- **Worldwide** portfolios invest in both South African and foreign markets. There are no limits set for either domestic or foreign assets.
- **Global** portfolios invest at least 80% of their assets outside South Africa, with no restriction to assets of a specific geographical country, for example the USA, or a geographical region, like Africa.
- **Regional** portfolios give investors at least 80% exposure to assets in a specific country, for example the USA, or a geographical region, like Africa, outside South Africa.

Full Report: ***https://www.fanews.co.za/article/compliance-regulatory/2/association-for-savings-investment-sa-asisa/1276/asisa-classification-of-sa-hedge-funds-underway/27669***

FA News | 10 October 2019

INTERNATIONAL NEWS

The Guardian view on women’s pensions: a feminist issue

A court ruled against the BackTo60 group last week. But the 1950s-born activists’ fight against injustice goes on.

Some means must be found to ease the hardship faced by the 1950s-born women worst affected by pension age changes. Last week the high court rejected the arguments in a judicial review brought by the campaign group BackTo60. The group argued that changes to the law in 1995 and 2011 were discriminatory on grounds of sex and age, and that 3.8 million women should be compensated. But while last Thursday’s loss was a setback, the campaign is far from over. An appeal is one possibility. Continuing

pressure on politicians – including the prime minister, who pledged during his leadership campaign to take a fresh look at the sums – is a certainty.

The principle of pension age equalisation is not contested. Neither the BackTo60 group (despite its name) nor Women Against State Pension Inequality (Waspi) believes that changes to the law should be reversed so that women continue to receive state pensions at a younger age than men. Equalisation has been the work of several governments, with a crucial landmark passed last year when 65-year-old women became the first to qualify at the same age as men.

But 1950s-born women argue that the pace of change has been too rapid, penalising them as a cohort. In addition, the women and their supporters – who include the former Conservative pensions minister Ros Altmann – believe that not enough was done to inform them of the changes, either when they were brought in or since. The consequence has been that many (no one knows precisely how many) simply did not find out. Those without workplace pensions or private wealth, who expected to be living on their state pensions from the age of 60, are now trapped on working-age benefits with all that entails in terms of the requirement to seek work (campaigners cite cases of women in their 60s being told to apply for apprenticeships).

That this is far from the only injustice of a failing benefits system does not make the Waspi women undeserving. Nor does the protection of pensioner incomes relative to other groups, under the 2011 triple lock, mean that the poverty of younger sixtysomethings is unimportant. On the contrary, the growing gap between working-age and pensioner benefits is one reason why the 1950s-born women are so determined. Another is the prejudice routinely encountered by older jobseekers. A third is that age and poor health, even when these do not amount to disability, restrict what is possible, as do the caring responsibilities routinely and disproportionately shouldered by women.

While the judges rejected BackTo60's case on grounds that the previous arrangement, under which men were expected to work longer, discriminated against them, the most cursory grasp of sexual politics points to a more complex truth. While pension rules, considered narrowly, may have favoured women, the reasons why they were expected to retire earlier were far from advantageous. Before women's liberation movements led to legislation such as the 1970 Equal Pay Act, women's work was regarded as secondary; their domestic and reproductive labour was considered their most important role. Many were expected to stop working when they married. Some who continued were excluded from pension schemes as part-timers.

This is the world that the 1950s-born women grew up in. For ministers, courts or society as a whole to refuse to offer them some form of redress smacks of victim-blaming, while the acceleration of changes in 2011 was only “less controversial” than other cuts – in George Osborne’s phrase – because those affected did not know what was going on. That the law must be changed so that any future changes are properly communicated is one of the more obvious lessons of last week. That the growing gender pension gap should face similar scrutiny to the gender pay gap is another. Given the current huge disparity in retirement incomes, a scheme granting at least some 1950s-born women early access to their state pensions, or means-tested pension credits, is the least that ministers ought to do as soon as possible.

The Guardian | 6 October 2019

OUT OF INTEREST NEWS

Financial literacy: The gift that keeps on giving

Our country is in the midst of a savings crisis. Most South Africans simply don’t have enough money to support themselves in retirement. The best – indeed, the only – chance of correcting the situation is for all of us to take responsibility for the nation’s financial education…

Whether you’re a school or university curriculum facilitator, a professional financial planner, or simply a money-savvy parent, now is the time to step up to the plate. The seemingly endless political upheaval in South Africa is doing real damage to economic growth. But we can’t blame politicians for everything. As South Africans we’re not doing nearly enough – professionally or personally –to ensure that our fellow citizens have sufficient capital to retire on.

The proof is in the pudding

The numbers are frightening. The first rule of retiring happily states that you should have enough capital to generate at least 75% of your final paycheck as income in retirement (escalating annually at the inflation rate). A recent Sanlam survey found that a mere 8% of South Africans achieve this goal. It also revealed that a third of retirees couldn’t even cover their medical expenses.

But this is just the beginning. A 2018 study by Old Mutual found that only half of South African millennials know what a unit trust is. Data from MyTreasury shines a light on some of the underlying reasons for the

crisis: 62% of us don't reinvest retirement savings if we're retrenched or change jobs; and 90% of South Africans with pensions don't monitor their investments after signing up.

The only way to change any of this is through financial literacy. A, B, C.

What is financial literacy and why does it matter?

Financial literacy entails having a set of skills and knowledge that allows you to make informed and effective financial decisions. The financially literate know how to budget and how to invest for retirement. They're also capable of setting – and achieving – shorter-term personal goals such as investing for education, managing risk through insurance and keeping debt in check.

Current evidence shows that university-educated people with six-figure incomes can be just as ignorant about financial issues as less-educated, lower-income consumers. We've all heard the stories about doctors and lawyers losing their life's earnings by not taking financial advice, by failing to manage debt, or by investing in overly risky ventures.

Financial literacy doesn't just affect our financial well-being. It can also have a devastating impact on our physical and emotional health. Financial stress really does kill. And not just individuals, either…Poor financial literacy can cripple entire populations. Just look at the financial crisis of 2008 to see the havoc wreaked by a general misunderstanding of mortgage products.

A perfect storm

These four current trends are making financial literacy more important than it's ever been.

1. We're making more financial decisions: Most modern pension plans are structured so that the risk of performance is borne by the employee. What's more, many small to medium size businesses opt for group RA schemes which require employees to decide how much to contribute.
2. We're faced with myriad complex options: Like tourists in befuddling foreign restaurants, consumers are being asked to choose from a cornucopia of unfathomable investment, savings and credit products.
3. We're living longer: Longer lifespans require greater retirement savings.
4. The world is changing: The current financial landscape is very dynamic, global and high-tech. This makes it harder to create, implement and follow a financial roadmap.

Financial literacy begins at home

As South Africans, we're all responsible for creating a financially literate society. Forget the old- fashioned old rules of etiquette – we can no longer afford not to talk about money. Our children need to earn their pocket money and we need to teach them how to budget it and how to invest a portion of it. Monopoly is an incredibly valuable game, but no one plays board games anymore…We need many computer games which create financial literacy. ***Full Report:*** ***https://www.fanews.co.za/article/education-training-learnerships/42/general/1196/financial-literacy-the-gift-that-keeps-on-giving/27662***

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