Retirement savings – consistency is key

A retirement fund, if smartly invested, ensures that old age is provided for and quality of life maintained. The reality is however, that more than half of today's pensioners have not done enough to ensure this. Recent studies indicate that only 6% of South Africans have accumulated enough savings to retire comfortably. Mirroring global trends, South Africans retire relatively young and are living longer than past generations. This is making saving for retirement more challenging than before.

South African retirement savings as it stands, the key to effective retirement savings and why consistency is the winning formula.


Scott Field
Chief Financial Officer, Fedgroup

Retirement savings as it stands

Upon retirement, most South Africans come up hopelessly short in terms of having sufficient funds to make them financially independent. Many have a replacement ratio as low as 30%. This means that they would need to survive on 30% of the income that they had while they were working. This is a far cry from the 70-75% that our economic climate demands.

The poor replacement ratio of 30% is not to say that South Africans are unaware of their retirement savings shortfall. In fact, most are. While some point out that they are only able to live month to month and cannot afford to increase their retirement savings, others admit that they prefer to live for today and struggle to see the benefit of an intangible that only comes to fruition decades into the future.

The key to effective retirement savings

Lack of preparation when it comes to retirement savings can lead to desperation and in some cases poor decision making. Having said that, effective retirement savings is not as complex and daunting as one may think.

A proactive approach of making top-up payments using funds such as an end-of-year bonus and making small economies wherever possible to increase the level of savings each month will go a long way to increasing a retiree's replacement ratio. With compounding returns and the years over which retirement savings is accumulated, these measures can significantly increase the level of income replacement ratio on retirement.

Further to a proactive approach, there is one key element to saving effectively for retirement and that is *consistency*.

Consistency equals a winning formula

In the past, South Africans were encouraged to move their retirement savings into low risk assets as they approached retirement age. Members would typically move their funds from a portfolio targeting CPI =5% to 6% to a portfolio aiming for CPI +3% or a money market instrument. The strategy, termed life staging, was highly recommended as retired people have little to no opportunity to replace their capital, so a low risk profile helped them preserve their funds. Because pensioners are living longer and thus require more funds, life staging is not recommended. Instead, a consistent growth orientated investment approach is.

Those moving towards retirement should stick to a growth portfolio that is either the same or similar to the one in which they were invested throughout their working lives. The key is to act five or six years prior to retirement to ensure that retirement savings are gradually moved across to a conservative portfolio. Essentially, on retirement members may move their savings from a retirement fund to a post-retirement annuity type of fund but the underlying asset mix would not have changed.

We believe it is important that the same portfolio is available pre and post retirement so that there is no need for a retiree to go through a process of selling assets and buying new assets (with the consequential fees) and the assets are simply transferred to the new legal vehicle.

True to the old adage, tomorrow belongs to the people who prepare for it today; investing in one's retirement is the most important investment that one can make. To ensure that old age is provided for and quality of life is maintained, retirement savings should be consistent. A growth orientated strategy should secure a retirement worthy of distinction – a net replacement value greater than 75%. ❐