INVESTMENTS

10X South African **Retirement Reality Report**

2021

Even before the pandemic turned our lives and economy upside down, many South Africans were in financial distress, symptomatic of the huge challenges facing our country. Millions are unemployed but even for many of those who are working, the money coming in does not cover their immediate needs, let alone their retirement funding requirements. This is happening across all age groups and demographics.

Our inaugural Retirement Reality Report, published in 2018, made it clear that South Africa was sitting on a retirement timebomb. Things have deteriorated since then. The pandemic has exposed our society's fault lines and magnified its vulnerabilities, especially the lack of safety nets for those who, in the past, were just able to hang on.

Around half the people surveyed for this report, 10X Investment's fourth annual Retirement Reality Report, say they are not providing for retirement at all. The other half indicate they have a savings plan of sort, although most will admit they don't know too much about it.

Our previous reports have shown a widespread lack of retirement planning in South Africa that often manifests in hubris and unrealistic expectations. This, in turn, leads to further disengagement from the issue.

This is where employers have a big role to play. RRR2021 found that more than half of those who say they have a retirement savings plan (53%) had at some point belonged to a corporate retirement savings fund, suggesting that for many people, this is an introduction to retirement saving.

Unfortunately, only 39% of respondents believe they have a good understanding of their fund, while a quarter admit to having no idea at all, and 7% say they are not really interested. A little more heartening (and surely an opportunity for education) is the fact that the remaining 36% say they know little but wish they knew more.

Increasingly, however, the data shows that for the majority the issue is not one of hubris or ignorance, but of economic hardship: 64% of people surveyed (up from 56% last year and 55% the year before) said they simply cannot afford to save because there is nothing left at the end of the month.

Even as this year's report finds that retirement preparedness is worse than before by most measures, there are also signs that attitudes may be changing. For example, relatively fewer young people now attribute their lack of saving to different priorities at this life stage.

That could be because their discretionary spending has been eroded, and with it the "luxury" of allocating that spending. Or, perhaps, the pandemic has given them a taste of what it feels like to live off reduced means. Others may have seen their friends or family members struggle to survive on a lower income.

Even if it seemed a little premature at the time, last year's report, RRR20, concluded: "If there is to be a positive from our state of economic and financial disaster, perhaps it is the increased awareness of our vulnerability to life's unexpected broadsides. By offering a glimpse into the future, of what it feels like to suddenly live off a low income and under the strain of great financial insecurity, it may finally convince people that they cannot afford to ignore retirement."

The pandemic underlined how few people save for a rainy day or have an emergency fund. When jobs were lost and incomes decimated, pensions savings were the only recourse for many. Of those who were given the opportunity to cash in their savings, 60% took it, a choice that should be a last resort, and one that many may have avoided if they were more informed on the consequences of doing so.

Around three-quarters of respondents (74%) accept that they will have to supplement their income after they retire. Yet it is hard to imagine how that will be possible, looking at our unemployment figures. According to Stats SA's Quarterly Labour Force Survey for the second quarter of 2021, using the expanded definition of unemployed people (which includes discouraged and disincentivised work-seekers), South Africa's unemployment rate was 44,4%.

10X releases the RRR21 into a country that is beginning to recover from the early ravages of Covid and lockdown. Green shoots of economic recovery are starting to reveal themselves and the focus has turned from defending against an external threat to recovering and rebuilding what has been lost.

The pandemic brought home that what many of us tend to take for granted – our health, employment and income, but also the freedom to work, to gather and to travel – are not cast in stone. The hardships of the past 18 months underline that the need to create resilience in our communities and to build sustainability into our lifestyles is beyond urgent. Saving and investing is one way for individuals, families and economies to create wealth and build resilience.

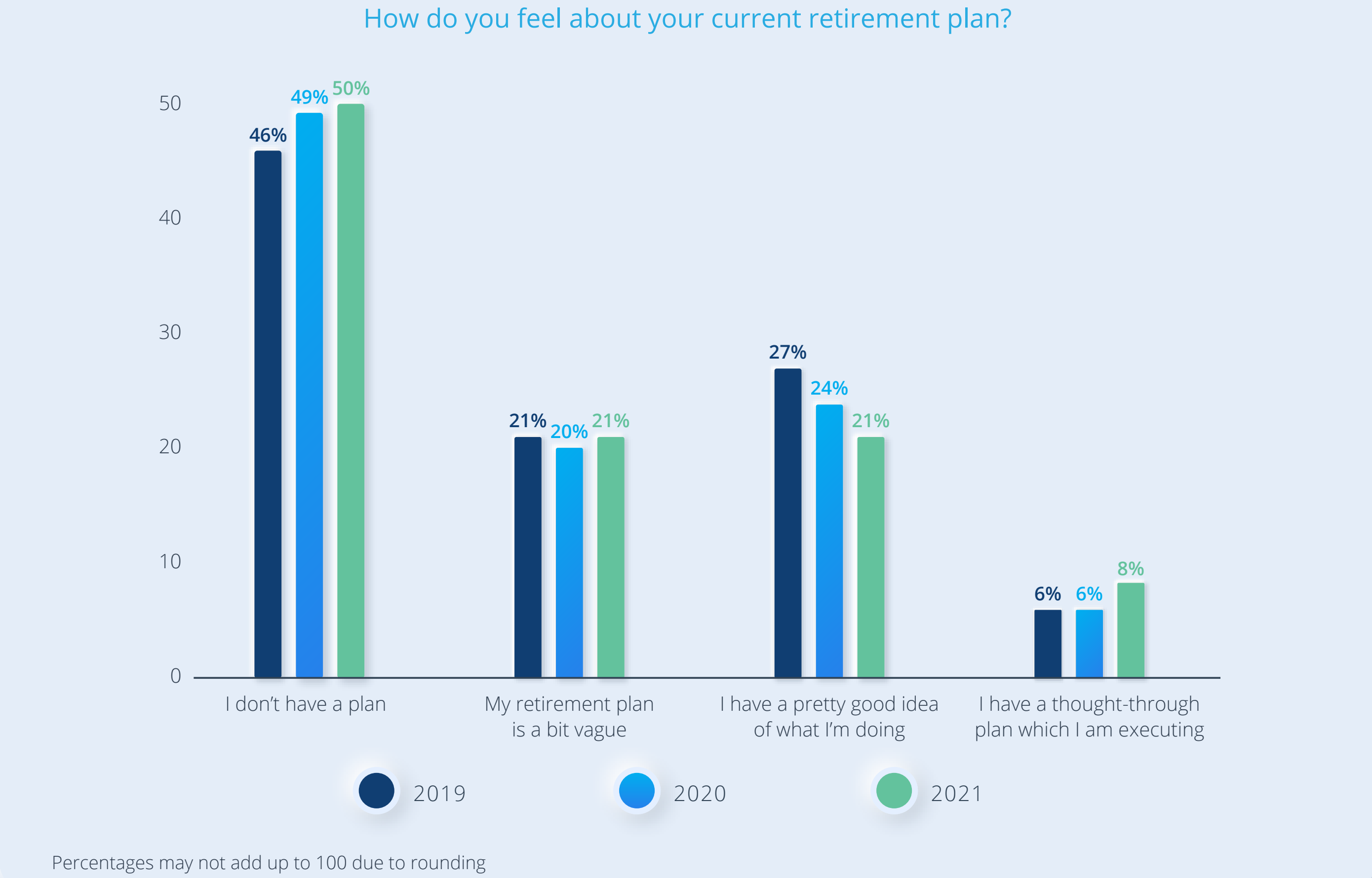
10X Investments hopes this report will draw attention to this issue and encourage debate on building a more resilient society, financially and otherwise.

BRAND ATLAS

This report is based on findings of the 2021 Brand Atlas Survey. Brand Atlas tracks and measures the lifestyles of the universe of 15 million economically active South Africans (currently those living in households with a monthly income of more than R8,000) through online completion surveys. The data are weighted to reflect the profile of this universe as defined by Unisa's Bureau of Marketing Research in their 2019 Household Income and Expenditure report.

In the context of this report, the term "retirement plan" refers to a considered and documented savings and investment strategy that will enable savers to accumulate enough money by the time they retire to maintain their standard of living in retirement.

Chapter 1: **What's the plan?**



The problem of South Africans not proactively anticipating their retirement is steadily getting worse: 50% of people surveyed for the 2021 report said they don't have a retirement savings plan (last year it was 49% and the year before 46%).

The percentage of people surveyed who said they feel good or pretty good about their retirement plan also tracked in the wrong direction: 29% this year compared with 30% in 2020 and 33% in 2019.

In total, 71% (2020: 69%; 2019: 67%) indicated they had no retirement savings plan at all, or just a vague idea of one. That is a lot of people who could be forced to rely on the kindness of family and friends, or to live off South Africa's meagre older person's grant (state pension) of R1,890 per month (R1,910 for those older than 75).

On a slightly more positive note, the number of people who said they were executing a properly thought-through retirement plan has improved by a third (admittedly off a very low base). This year, 8% of those polled said they were doing so, an improvement on the 6% in the previous two years.

The proportion of people who said they had "a pretty good idea" of what they were doing has steadily decreased, from 27% in 2019 to 24% in 2020 and 21% this year.

Having a "pretty good idea" suggests familiarity rather than insight and reflects the superficial understanding and relaxed approach many South Africans bring to their future financial affairs. The fact that people are moving out of this cohort and into the more polar realities of 'I am preparing/I am not preparing' may be a sign that people are now taking a harder look at their current position.

According to Stats SA, 49.2% of South Africa's total adult population of 35.1 million lives below the upper-bound poverty line. (This data, from April 2019, is the latest available since the Living Conditions Survey is completed only every five years, but other data from Stats SA suggest that these numbers have deteriorated significantly as a result of the pandemic and containment measures.)

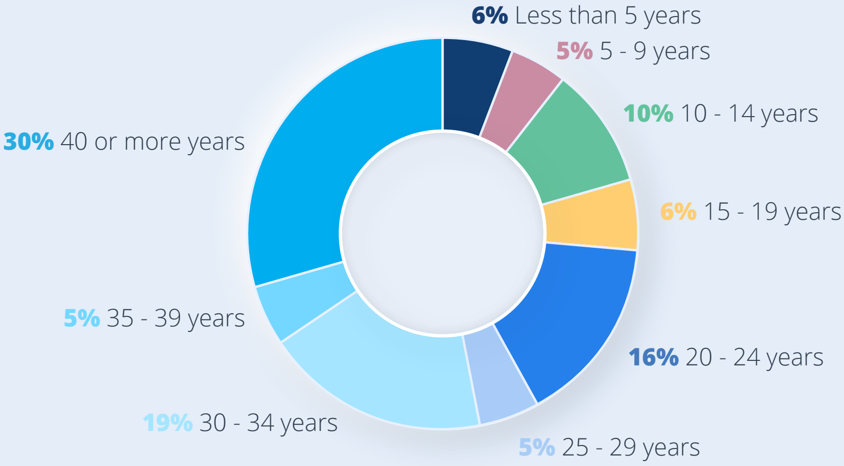
Even beyond the pandemic these numbers are likely to get worse as our population pyramid matures, and more people move towards retirement.

Editor's note

At this point the universe of respondents is separated into two groups of roughly equal size:

- People who said they have some sort of a plan. Most of the report focuses on this group
- People who have no retirement plan at all. 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

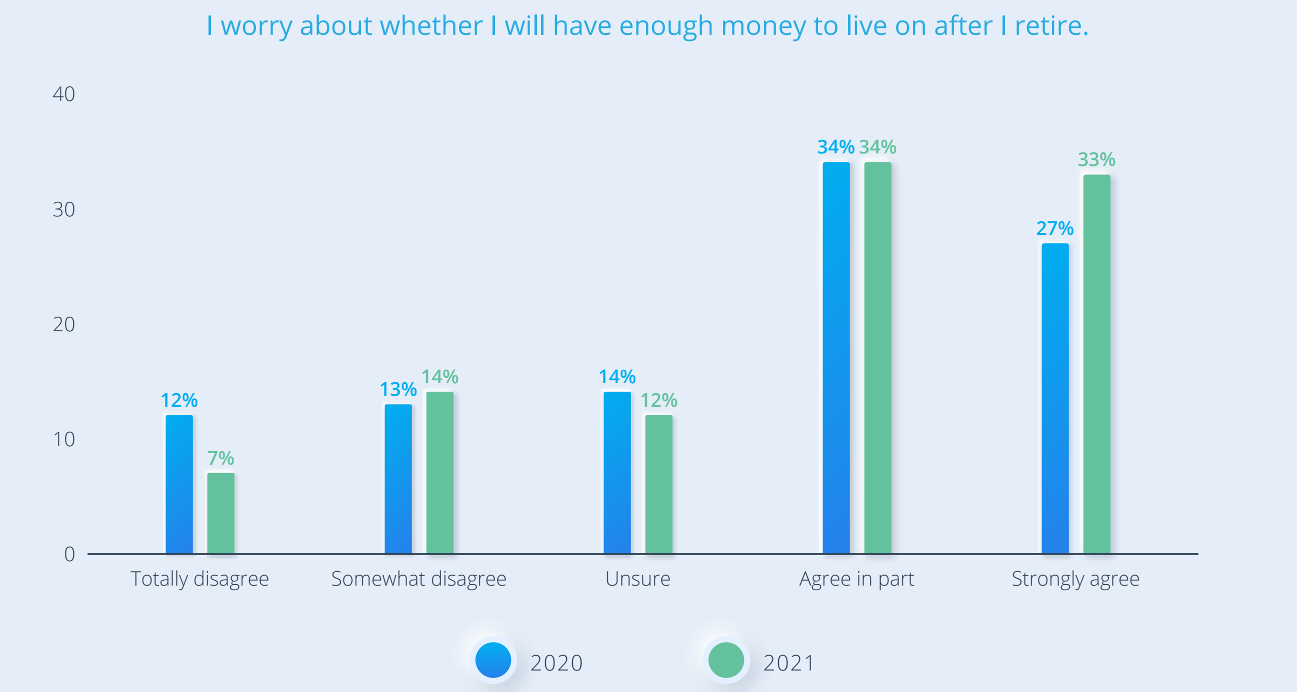
Not much has changed since last year's report in terms of how long people think it takes to save for a decent retirement. Almost half the people surveyed think they can save for retirement in less than 30 years. The fact that most people think they can leave it late (ie to the final 20 or 30 years of work) is a fundamental problem.

What is the difference between saving for 30 or 40 years? In the context of a consistent savings plan, earning a net real return of 5% (after fees and inflation), saving for 40 rather than 30 years will deliver a retirement income that is 83% higher. Or to put it another way, people who save for only 30 years instead of 40, will have to make do with an almost 50% lower retirement income.

Thanks to the benefit of compound growth*, the money saved in the first decade or two of saving keeps growing over time, with growth piling on growth, and eventually making up the lion's share of retirement money. Rather than starting late and trying to make up for lost time, the message should be save like crazy at the beginning and leave the money to grow.

***Compound growth describes a kind of snowball effect whereby returns make up an increasingly larger share of your total savings as the investment term lengthens because you earn a return on your total contributions as well as on your previous returns.**

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



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Things continue to look worse than before, even for those who do have some sort of savings plan. 79% of respondents in this category (up from 75% last year, and 72% the year before) worry they won't have enough to live on after they retire, or feel unsure about this.

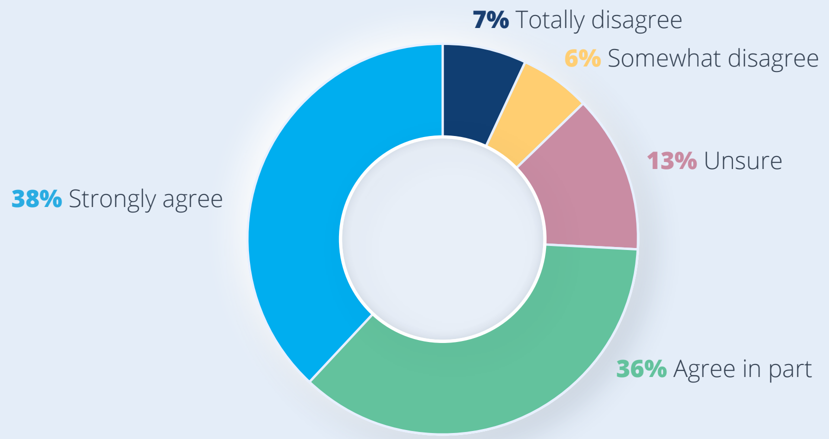
Last year, only 12% of those surveyed were not worried at all; this year that number is down to a mere 7%.

On the other end of the scale, those who feel sure they won't have enough to live on after they retire increased from 27% to 33%. This seems counter-intuitive, given that portfolio returns have been good over the past year, but may account for the many people who were unable to save over the past 18 months or worse, were forced to dip into their nest egg.

High levels of concern about having enough money in retirement still present across all income brackets but the outlook has deteriorated for the most vulnerable groups: 84% (up from 76% last year) of those with total monthly household income (HHI) of less than R20k said they felt concerned or were unsure about having enough money in retirement, as did 80% (76%) of those with a HHI between R20k and R50k, and 70% (an improvement on 72% last year) of those whose HHI was upwards of R50k per month.

It is well-known that South Africa is a most unequal society in terms of wealth and income. According to the World Bank, South Africa has one of the highest inequality rates in the world. In such an unequal society, it is noteworthy that concern about running out of money in retirement is only moderately related to current income.

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



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Most survey respondents (74%, compared with 77% last year) believe they will have to generate some income after they retire. Another 19% are not very sure, leaving just 7% of respondents feeling confident that they are on course for what is increasingly becoming an outdated notion of retirement, based on full financial independence.

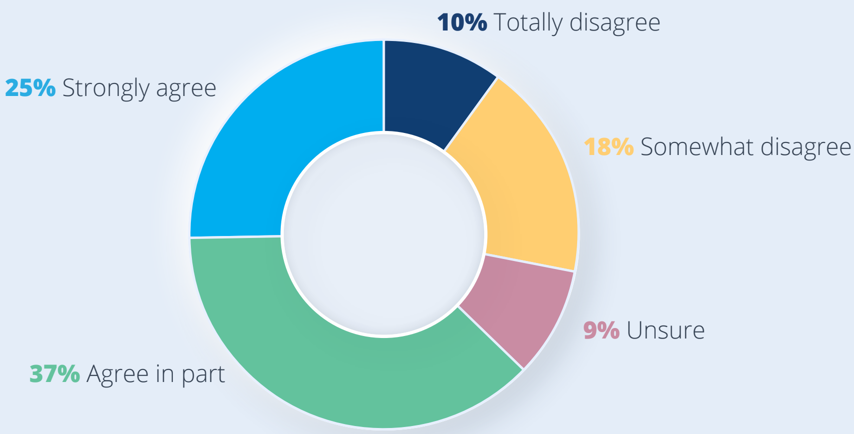
Breaking this down into different income groups: a mere 6% of those with a household income of R50k and above feel sure they will not have to keep earning after they retire. For both other income groups it was just 7%. This highlights once more that achieving a financially secure retirement is less about how much we earn, and more about how much we engage in the process, inform ourselves and save.

This data, remember, is for respondents who said they do have a retirement savings plan of some sort, which underlines the fact that having a retirement savings plan is not enough. It also needs to be workable and realistic, and there needs to be follow-through.

A workable plan requires a specific goal, and strategy to achieve it. This is easily determined with the help of online tools, such as the 10X Investments retirement calculator. This tool calculates how much money you need to retire comfortably, and how much you need to save, starting now, to get there.

The proportion of people who expect to keep earning in retirement is particularly worrying considering South Africa's alarming unemployment figures. According to Stats SA's Quarterly Labour Force Survey (QLFS) for the second quarter of 2021, South Africa's unemployment rate was 34,4%, with about 54,000 fewer people employed than in the first quarter of 2021. Worse still, according to the expanded definition of unemployed people (which includes discouraged work-seekers) the figure was 44,4%.

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



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The sense of realism created by so many respondents accepting that they will need to continue earning an income in retirement is somewhat undermined by the fact that 62% of respondents nevertheless expect to enjoy the same or similar standard of living when they retire.

This perception does not add up: 79% of respondents worry about having enough to live on after they retire, 74% expect to need some additional income, yet 62% anticipate they can maintain their standard of living. Too few people seem to appreciate how having too little money in retirement connects to the lifestyle they can afford one day.

There also seems to be little acceptance that retirement is an inevitability, rather than a choice. In an ideal world we would all willingly hand over the reins and step into retirement when we felt financially prepared to do so. In the real world, many will have to work longer than they would like, while others will be forced out before they feel ready, psychologically or financially.

This year, 70% of retired respondents said they retired when they had wanted to, 29% claim they were forced to retire before they wanted to, and 2% said they had to work for longer than planned. More about retired people and how their reality lines up with the expectations of those not yet retired in Chapter 5.

THE COST OF A DECENT RETIREMENT

A retiree can usually maintain their pre-retirement standard of living on a lower gross income than they needed when they were working. The percentage of final salary required to preserve one's lifestyle in retirement is known as the replacement ratio.

Our financial obligations are likely to be lower in retirement. The pandemic has given many working people a sense of what a home-based lifestyle costs compared with office life. Apart from no longer having to commute to the office (providing savings on public transport, or fuel and wear and tear costs of a vehicle), retirees will probably also spend less on wardrobe and on outside-prepared meals.

Also, in retirement, parents will ideally no longer be supporting their children, and hopefully the bond is paid off. There are 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 fund will also not have this deduction.

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

The required replacement ratio depends on individual circumstances and expectations at retirement, but savers should aim for a minimum of 60%.

By framing the savings goal as an income replacement ratio, we can estimate what savings we require at retirement to fund that level of income. A retirement savings calculator can help savers work out whether they are on track to maintain their lifestyle in retirement based on their current savings, savings rate and investment strategy.

The first step is to understand where we stand in terms of current savings. Then, we must determine how much of our income we need to save, based on the reasonable expected returns of our current investment strategy over the remainder of our working life, to have a high chance of achieving the stated goal.

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

10X Investments' first three Retirement Reality Reports drew a picture of unequal, often worsening, statistics for women in South Africa. Unfortunately, the RRR21 adds another layer to that picture.

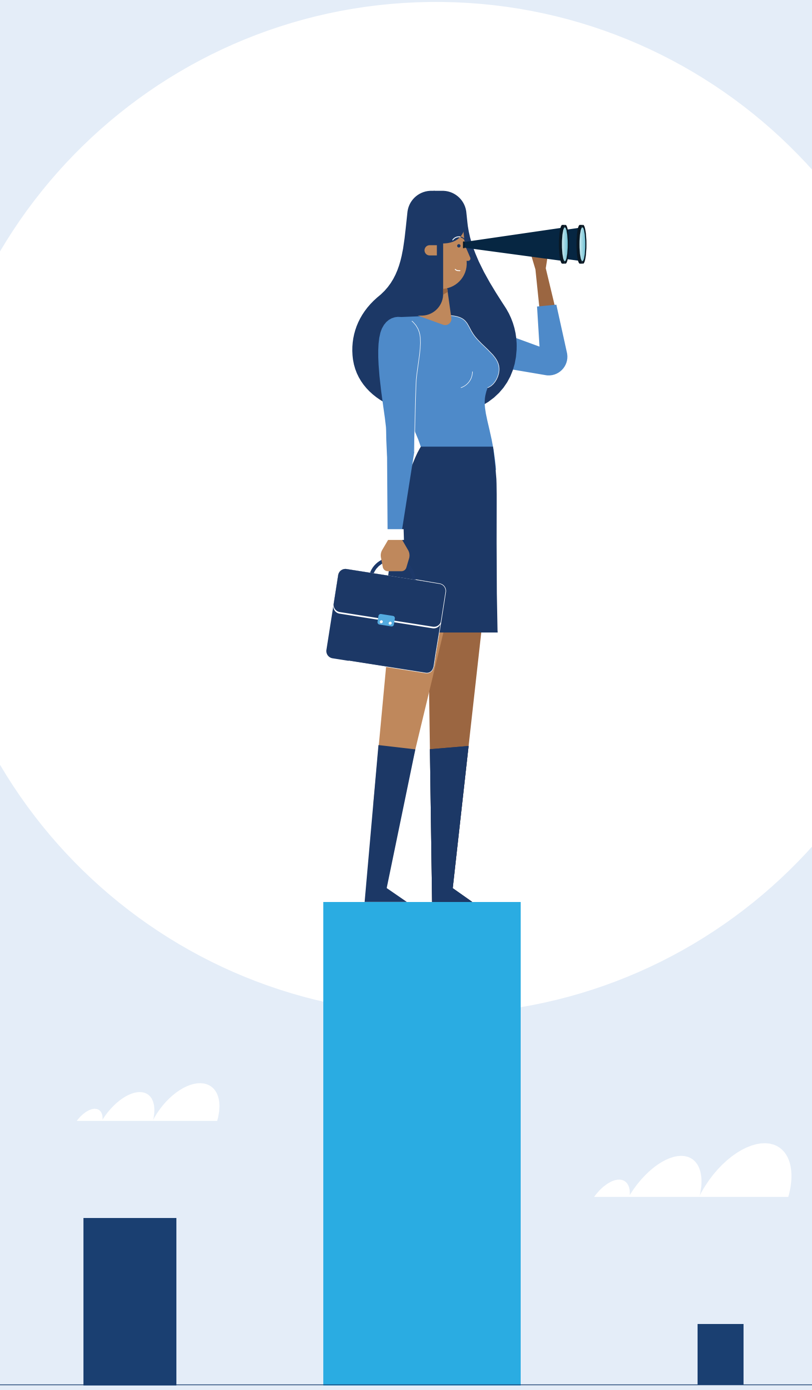
Simply put, women are worse off than men, according to almost all measures. The gender disadvantage starts at birth, is often magnified through education and peaks during working life (more so if a woman's career is interrupted by pregnancy and the raising of children). All these inequalities compound and carry over into retirement.

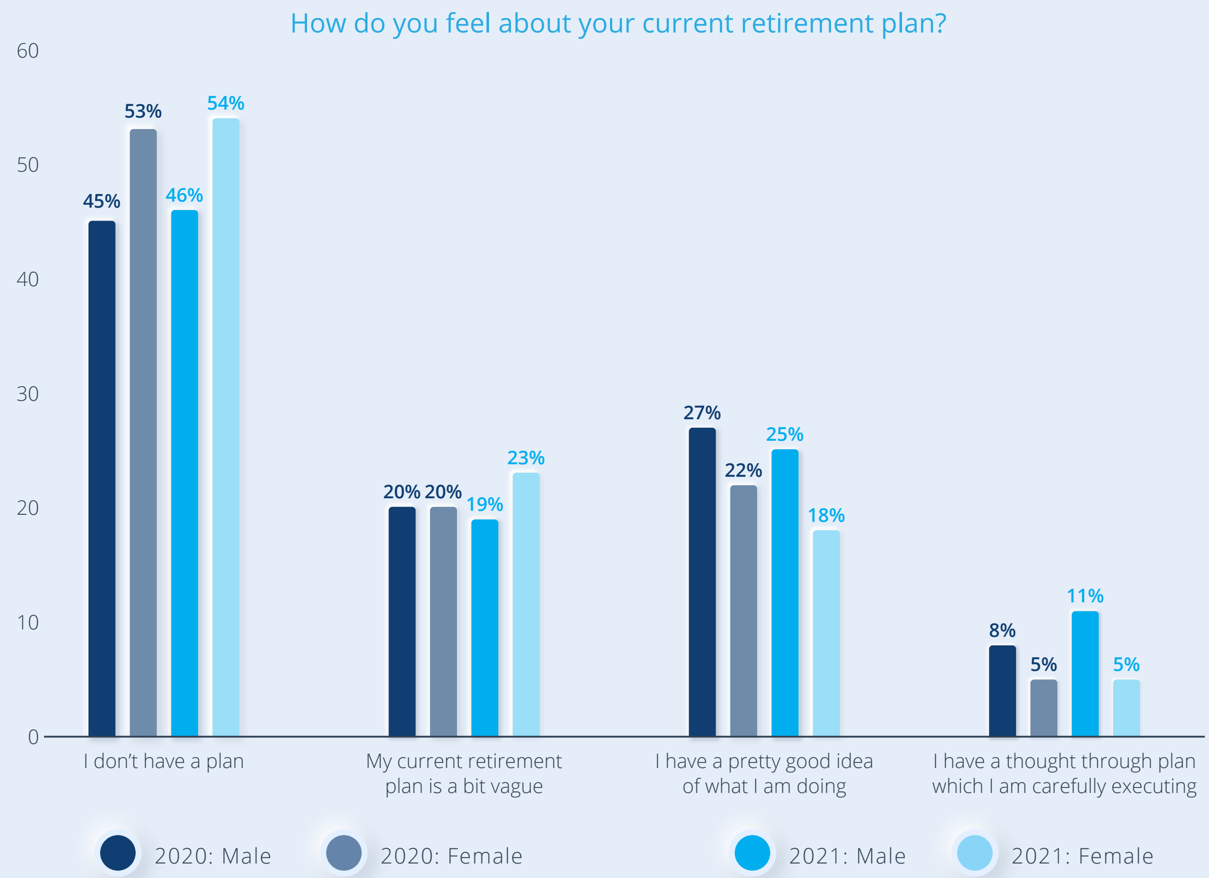
Our Retirement Reality survey shows that the retirement readiness gap between the sexes persists and, by some measures, is getting wider.

Just a few measures from Stats SA:

- Girls are significantly more likely than boys to offer "family commitment" as a reason for not attending school (17,1% versus 0,3%)
- Per the Quarterly Labour Force Survey for the second quarter of 2021, the unemployment rate for males was 32,4% and 36,8% for females
- Women earn approximately 30% less than their male counterparts on average

Also, women at retirement age have a higher life expectancy than men, which means they require a relatively bigger retirement savings pot than their male counterparts.





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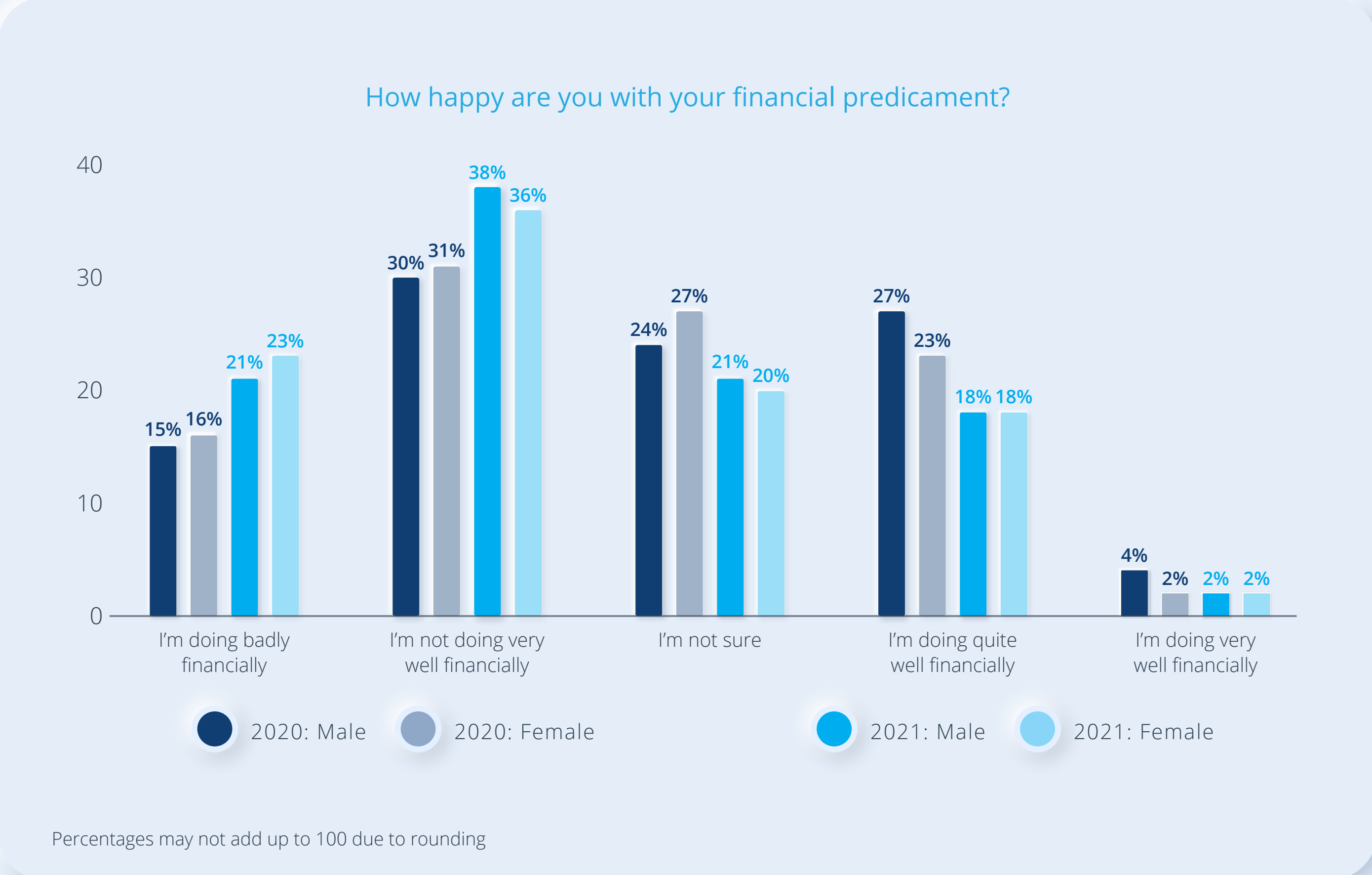
The proportion of women who say they don't have a retirement savings plan continues to register far higher than men: 54% of women this year (up from 53% last year and 51% the year before that) compared with men at 46% (45%).

A worrying development this year is that among the very small cohort of people who are confident they are on a clear and positive path to a comfortable retirement, things are improving for men but frozen at a low level for women. Last year, 8% of men and 5% of women said they were executing a considered retirement savings plan. This year the number for men is up to 11%, while for women it is still just 5%.

The improvement for men is welcomed but it is worrying that more women are not also moving into this cohort, and that the gap between men and women who feel confident about their retirement prospects is widening.

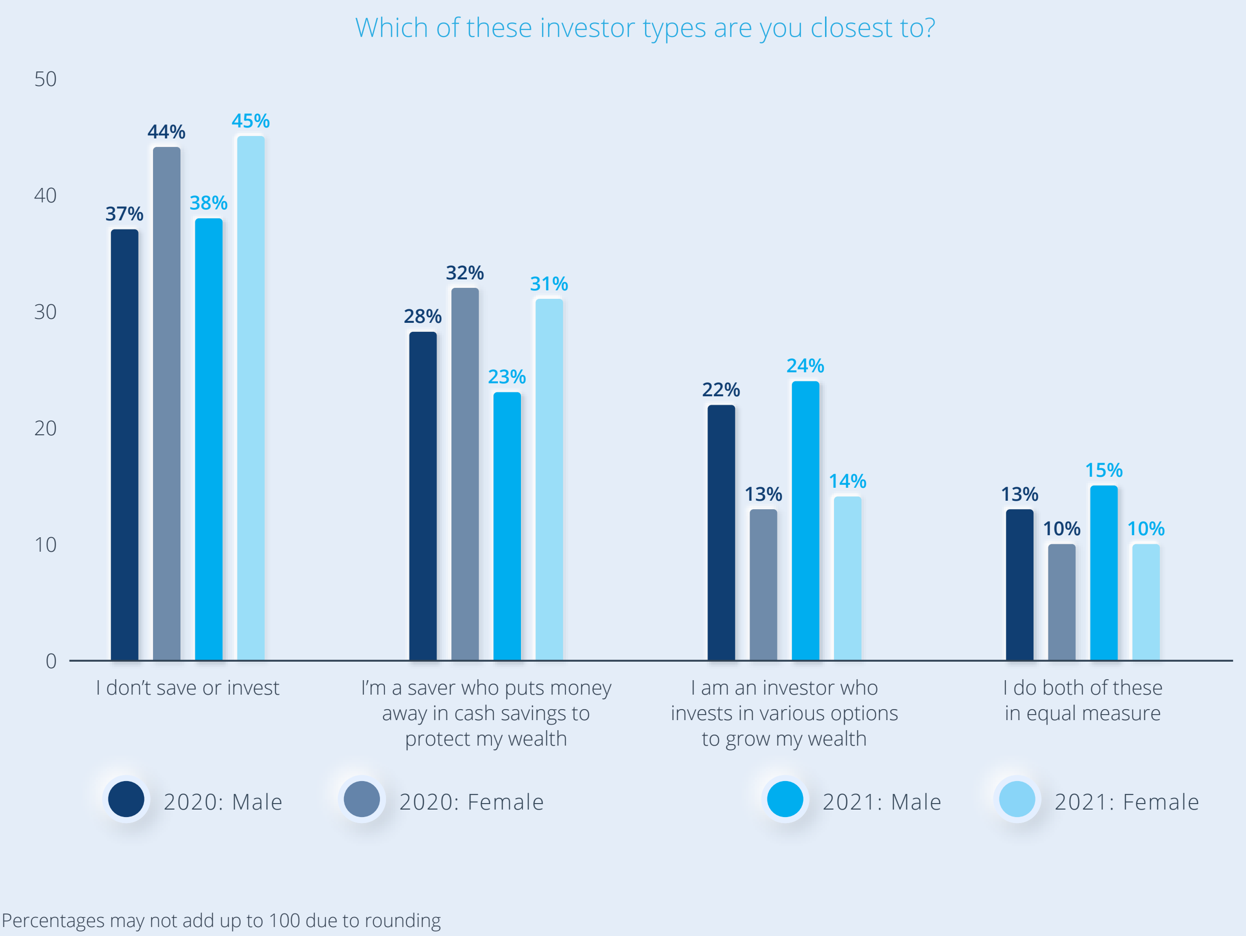
The deterioration for women presents across the spectrum with the proportion saying their retirement plan is a bit vague increasing from 20% to 23%, more perhaps admitting that having "a pretty good idea" really means not having a clear idea, as that number has dropped from 22% to 18%. For men, the percentage of those with a vague idea declined by just 1% to 19%, and for those with a "pretty good idea" dropped from 27% to 25%.

Unfortunately, the narrowing gaps on these measures between the sexes reflect a decline in men's situation rather than an improvement in women's.



This year, 80% of men reported that were not doing well financially or were unsure how they were doing, compared with 79% of women. Compared to last year, the deterioration for men (69%) was more severe than for women (74%). The 11 percentage point decline for men underlines the difficult economic conditions in South Africa and very probably many other parts of the world. The gap is narrowing, but for the wrong reason, so there is not much to celebrate here.

Both groups see a decline in their financial situation. And whereas last year the gap between men and women who described themselves as doing very well financially was growing, with 4% of men falling into this cohort, compared with just 2% of women, this year the gap closed but again only because the proportion of men declined to 2%, where it has remained for women.



The data also continue to show that women are less likely to invest appropriately to increase their wealth and narrow the wealth gap. Investing in a portfolio of well-diversified growth assets and keeping fees low is a more effective method to grow wealth than saving in cash-type products. Yet only 14% (2020: 13%) of women surveyed said they invested their money for growth, compared with 24% (2020: 22%) of men. The number increases to 39% for men, based on those who both invest and save, compared with 24% for women.

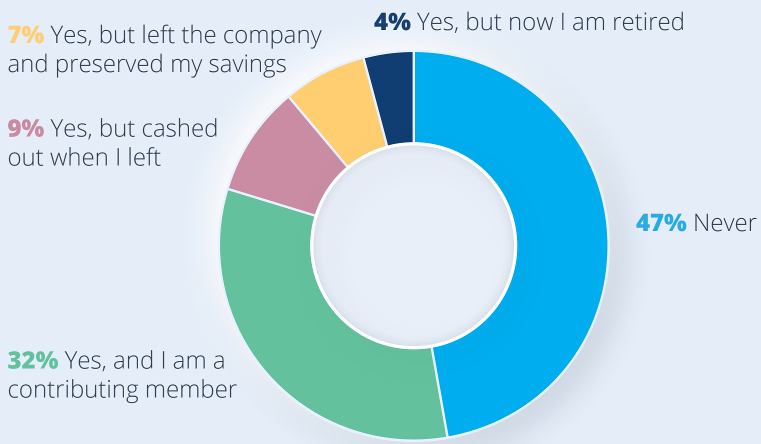
More women (45%) than men (38%) are not saving or investing at all. Among those who are saving, women are more likely than men to be cash savers: 31% of female respondents compared with 23% of male respondents.

It is understandable that people with limited savings are more reluctant to expose those savings to any kind of market risk, more so if these are likely to be needed to cover short-term emergencies. However, for those with longer-term objectives, such as securing a retirement income, storing money away in savings accounts that currently deliver negative real returns (that is, the interest earned is lower than the current inflation rate) destroys rather than builds wealth.

In total, 76% of female respondents indicated that they don't save, or, if they do, don't invest for growth. Until this changes, they have no chance of earning a decent income in retirement.

Chapter 4: **What about the role of employers?**

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



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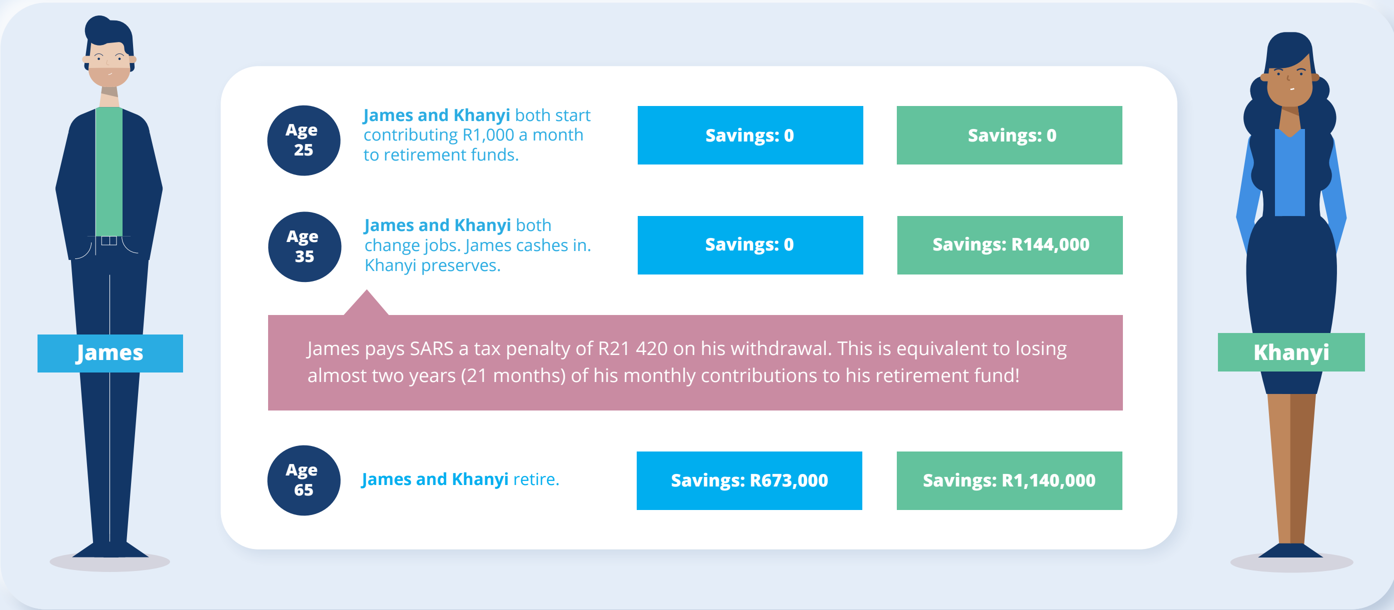
More than half the respondents with a retirement savings plan (53%) said they were members of a corporate retirement savings scheme or had at some point belonged to one. This seems like a missed opportunity, considering the general low level of understanding about retirement saving in South Africa, even among those who at some point belonged to a retirement fund.

Being part of the formal retirement saving "system" should mean that these respondents had been exposed to some structured information and training about their fund, retirement saving in general, and options when leaving that job. Still, nearly 60% of those people who had left a corporate scheme cashed out their savings.

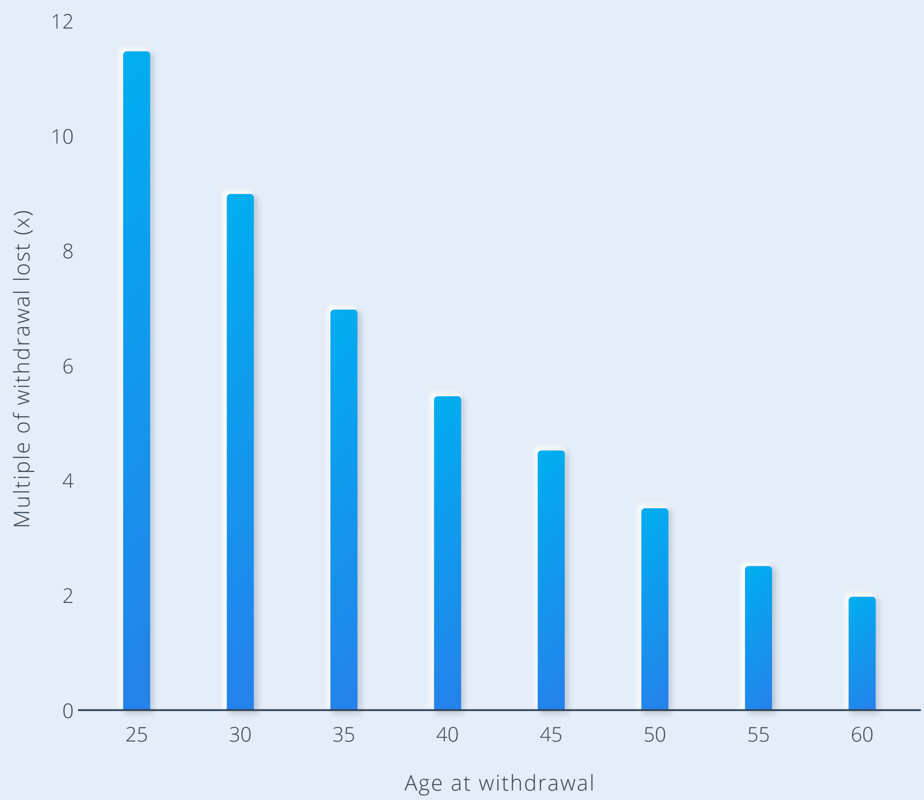
There is no doubt that in today's economic climate many of those who cash out their savings have no other realistic choice. Even if they are aware of how much they will lose over the longer term, immediate, pressing concerns, such as hungry children or being handed over to debt collectors, will override worries about their future financial well-being.

That accounts for only some of this group, however. Evidence from earlier RRRs as well as the wider industry, shows that the number of corporate fund members who cash out and spend all of their savings despite not having an immediate and pressing need for the money remains high for people who should have been alerted to the dangers of doing so.



A much better choice for those people would have been to take their savings to their new employer's fund or ringfenced them (and the associated tax benefits) in a preservation fund. The loss of the growth of those savings, which compounds over time, is almost always significantly more than the loss of the amount saved.

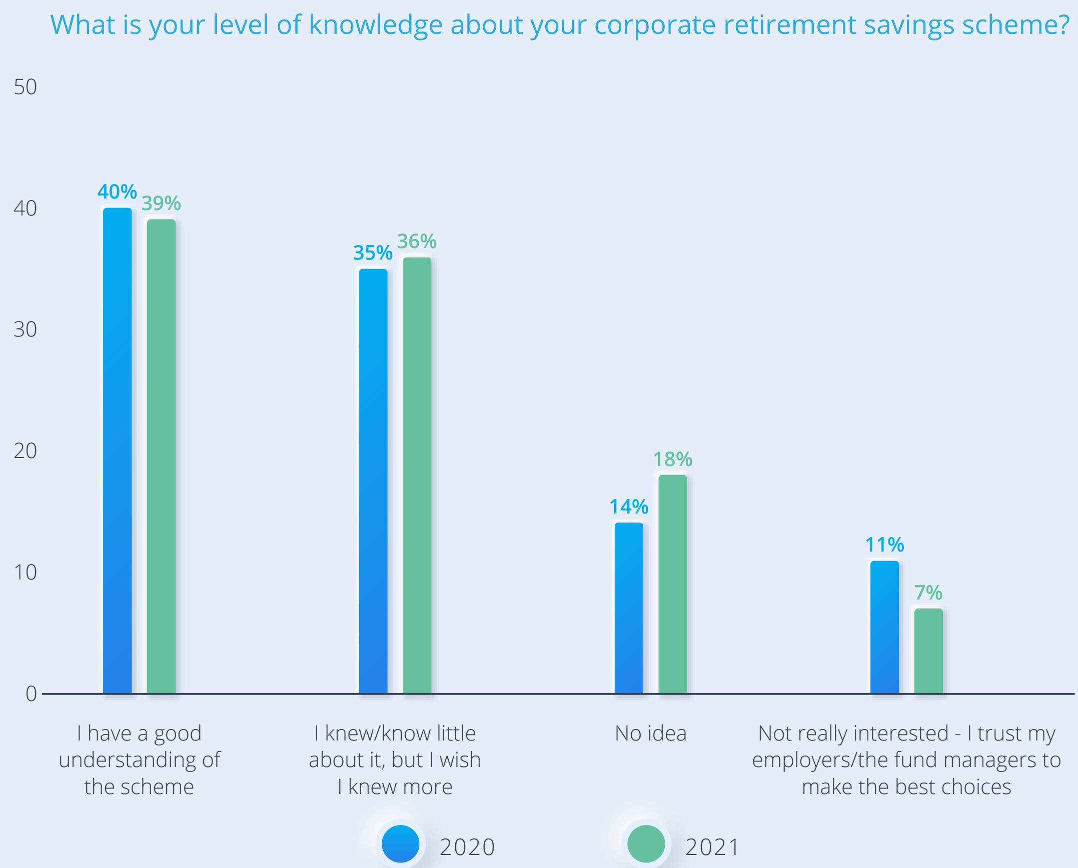
The graph below, based on a 5% pa net real growth rate (after fees and inflation) quantifies the true cost of an early withdrawal, in the context of a 50-year investment life (40 years of work and half the retirement period). The multiplier on a fund withdrawal (or not saving) at age 25 is 11,5x. To put it another way, R10,000 withdrawn at age 25 means R115,000 less money in retirement. Or, more practically, someone who withdraws R300,000 at age 35 will have R2,1m less money in retirement (in today's money terms) than they could have had.



Source: 10X Investments

Treasury's proposal in August 2021, to allow retirement savers to access a portion of their savings in times of distress, seeks to moderate the impact of early withdrawals, by imposing mandatory preservation on the balance. It is an attempt to help savers balance short and long-term needs, ensuring there is some provision for retirement.

When changing jobs, retirement savers have the option to preserve their savings, either within their current retirement fund or to transfer tax-free to a new employer's fund or to a preservation fund or retirement annuity fund. Yet many members cash out their full benefit, unaware that there is the option to take a portion as cash and preserve the remainder, with the opportunity of one more – full or partial – withdrawal before retirement age. Many people who intend to use only a small amount of their savings, and who are unaware of these options, take the whole amount.



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. Regrettably, the majority know very little about what will likely be their biggest investment, a lack of engagement that trails its own penance.

It may be that the employer and/or fund don't communicate well with fund members, or that the complexity and lack of transparency in some corporate schemes is to blame. While these may be contributing factors, there is no shortage of insight freely available online, enabling everyone with the necessary interest to fully inform themselves on the dos and don'ts of retirement saving. But this survey confirms that many South Africans, especially younger people, just don't consider this an important topic.

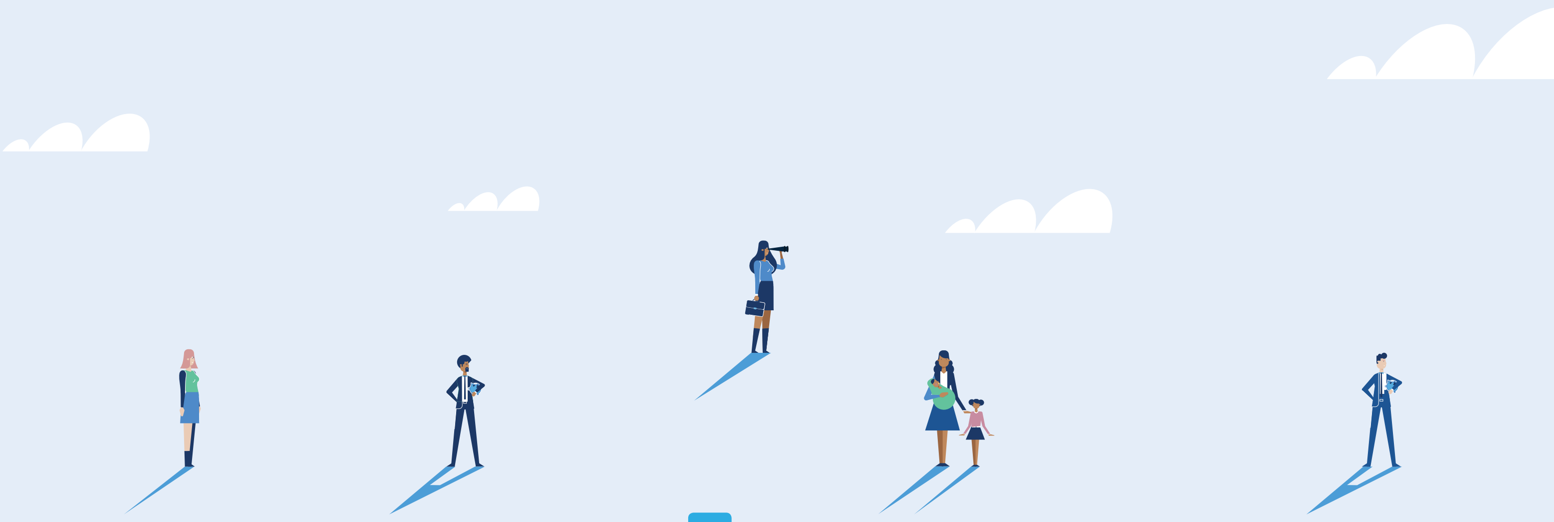
They are disempowering themselves. By disengaging, they distance themselves from aspects of their funds they do not understand and, in so doing, also abdicate responsibility for the outcome. These two factors are mutually reinforcing: the more intimidating the subject appears, the less likely that members will engage.

Presuming that their employer has done the due diligence for them, some question why they should bother, as evidenced by the 7% who said they were not really interested because they trusted the employers and/or fund managers to make the best choices. That is down from 11% last year, but the proportion of people with “no idea” increased from 14% last year to 18%, meaning a consistent combined total of 25% of fund members don’t monitor the management or performance of their retirement savings fund.

On a more positive note, three in five of those members who said they knew little-to-nothing about the fund said they wished they knew more, an acknowledgement of their responsibility to secure an adequate retirement income. There appears to be a willingness to learn more about the subject, and thus an obvious opportunity to educate corporate fund members.

There is less individual choice for members of a corporate fund than in a retirement annuity as the employer makes some of the big decisions in the interests of all members. It is, however, important for members to make the most of the choices and opportunities they are given, which should ideally allow them to align their investment strategy with their savings goals based on their retirement savings plan.

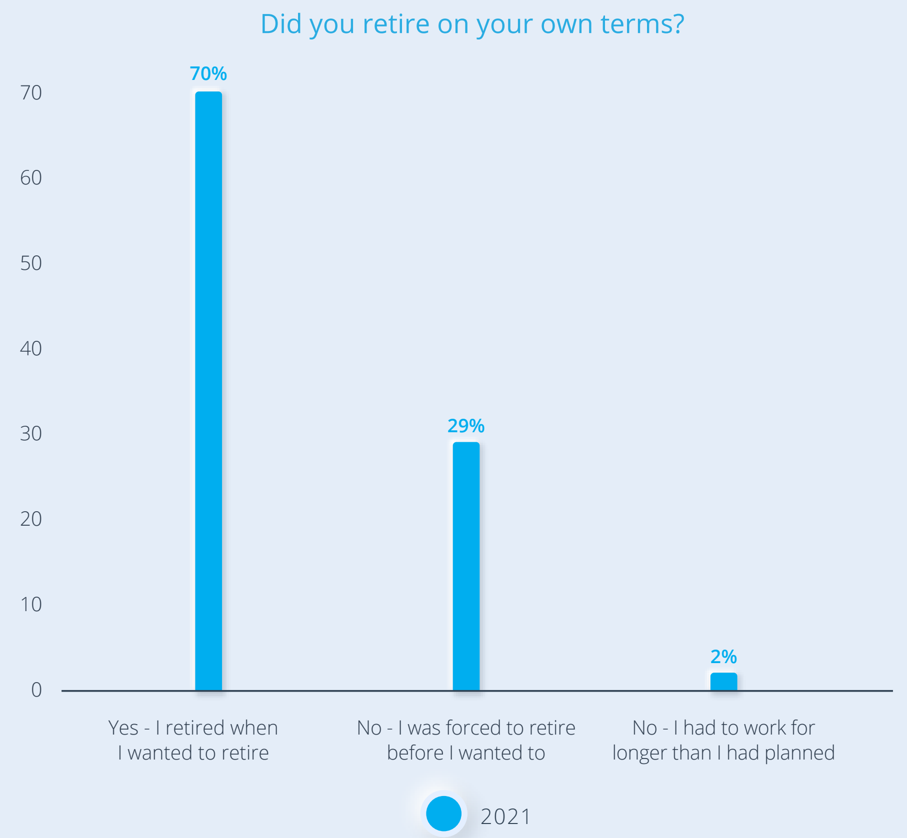
It has been more than two years since it became compulsory for a fund to provide counselling to exiting members on the choices – and the effect of these choices – available to them (preserve with the existing employer, transfer to the new employer’s fund, preserve in a preservation or RA fund, or cash out, in whole or in part), with in-fund preservation as the default. Hopefully, this will in time cause a decline in the percentage of respondents who don’t preserve at least a part of their savings on changing jobs.



Chapter 5: **Retirement: A carefree life or a punch in the gut?**

For most people, retirement is a vague concept that looms in the distance, mostly ignored and rarely in focus, until suddenly it is upon them. A longed-for moment for many, the eagerly anticipated unshackling from fulltime employment and the prospect of more leisure time can quickly be overtaken by worry and a sense of futility, brought on by a lack of routine, purpose and adequate income.

In the end, much of the longed-for free time can be spent fretting about unexpected bills and money management. But it does not have to be that way, at least not the financial aspect. A properly thought-through retirement savings plan that is implemented early and revisited and adjusted annually, would make retirement a very different experience for so many people.



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In an ideal world we would be happy to hand over the reins and step into retirement at the appropriate time. In the real world, many will have to work longer than they would like, while others will be forced to stop working before they feel ready, psychologically or financially.

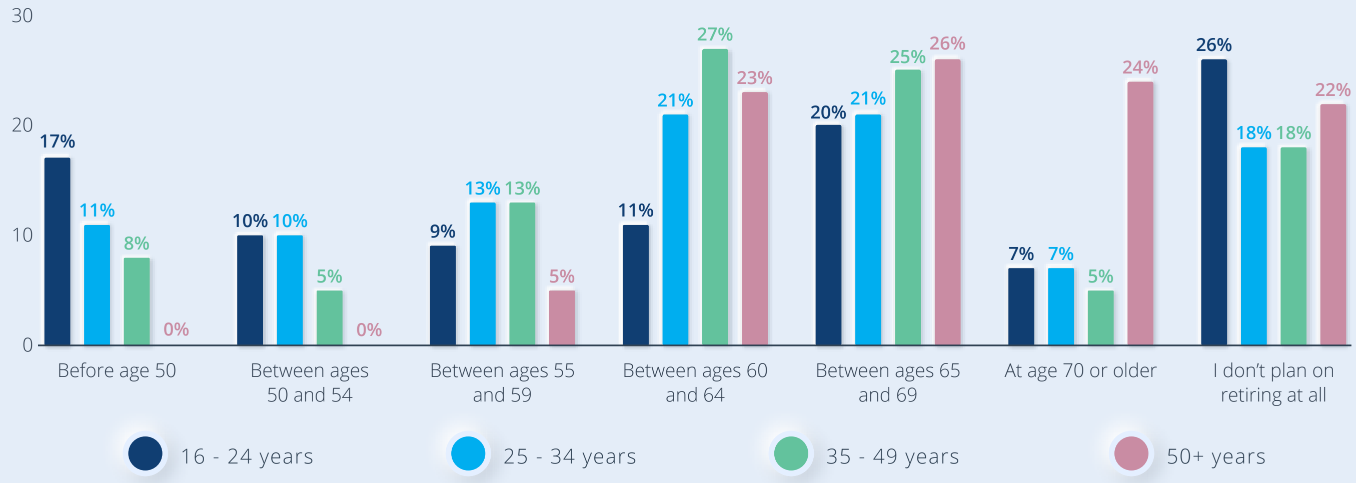
Of the survey respondents who had retired, 70% said they retired when they wanted to, while 29% were forced to retire ahead of time. Just 2% said they had to work for longer than planned.

Owing to relatively small percentage of respondents in the survey who have retired (around 3%) the numbers tend to vary from year to year. However, the trend over the years suggests that roughly one-third of retirees are forced to retire sooner than expected, a double whammy for any retirement plan, as more retirement years must be funded by fewer years of contributions and compound returns. For those in formal employment who don't plan to retire, some may find their employer has other plans.

It is becoming increasingly clear from these Retirement Reality Reports that the lack of retirement planning not only manifests poor outcomes but also unrealistic expectations.

The following graph indicates when people expect to retire, according to their current age group. It suggests that for younger people especially, retirement planning is a nebulous, even fantastical thing, a problem for another time. It is not. A few people will strike it lucky and achieve financial independence with little-to-no planning; most won't.

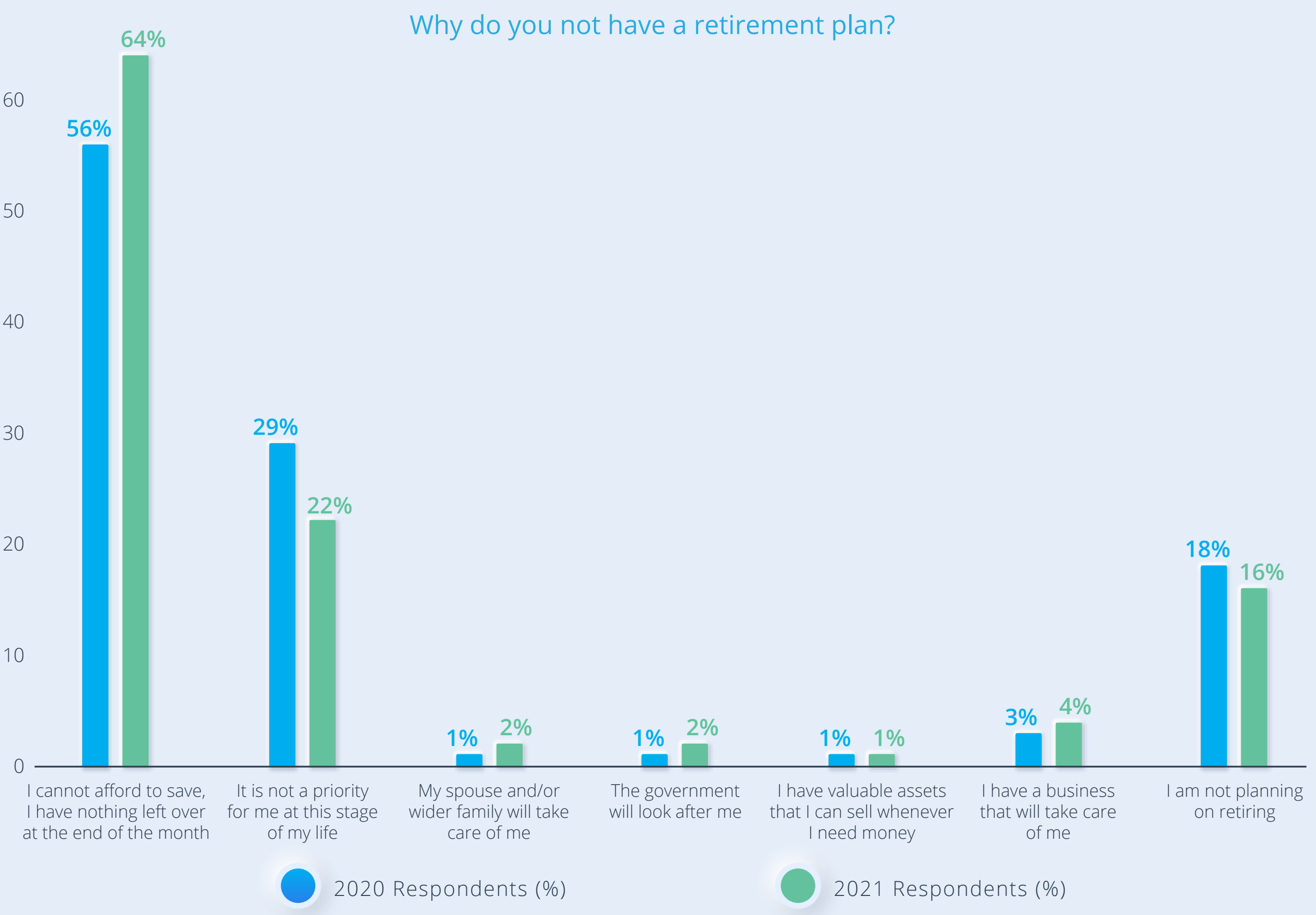
At what age do you plan on retiring?



Percentages may not add up to 100 due to rounding

It is striking that whereas some 35% of respondents under 35 believe that retiring below age 60 is achievable, only 4% of over 50s consider this realistic. In the same vein, whereas among the younger cohort (between ages 25 and 49), on average, only 46% expect to work past the age of 64, among those 50 years and older, many more (71%) have wised up to their retirement reality and expect to retire beyond age 64, or not at all. Both sets of expectations seem unrealistic in a country like ours.

Chapter 6: **The road to ruin ... not saving**



Percentages may not add up to 100 due to rounding

Covid has exposed more workers to the uncertainty of employment. Many people have felt a threat to their jobs and seen others lose their seemingly stable positions. Still, 16% of those survey respondents who are not saving for retirement indicate they don't plan to retire. It is, of course, not as simple as that. No one is, by force of will, immune to ageing, incapacity or redundancy. And, as Covid-19 has shown us so convincingly, an external shock can quite suddenly shut down productive and otherwise sustainable businesses, entire sectors even.

In the same way that purchasing medical insurance is not just for people who plan to get sick, saving for retirement is insurance against outliving our working life, for whatever reason.

Increasingly, however, the data shows that for the majority the issue is not one of hubris or ignorance, but of economic hardship: 64% of people surveyed (up from 56% last year and 55% the year before) said they simply cannot afford to save because there is nothing left at the end of the month.

According to Stats SA's Quarterly Labour Force Survey for the second quarter of 2021, South Africa's unemployment rate was 34,4%. Young people (those aged 15-24 years and 25-34 years) recorded the highest unemployment rates of 64,4% and 42,9% respectively.

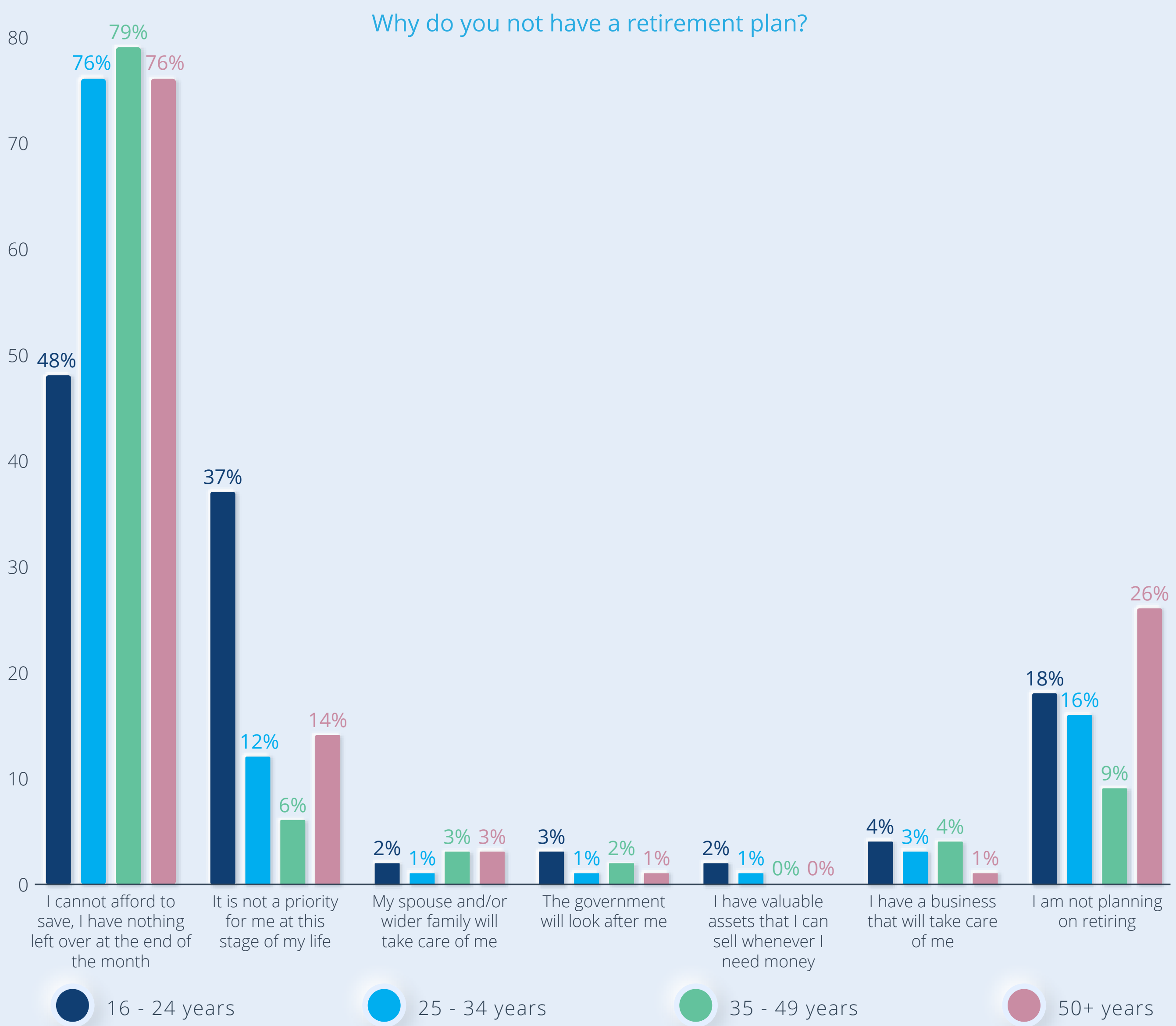
In a new economic update on South Africa (July 2021), the World Bank found that the coronavirus pandemic had "exposed structural weaknesses in the job market with young people, in particular facing acute unemployment rates, with incidence twice as high as among older age groups".

The World Bank report found that among 15 to 24-year-olds, 63% are unemployed and looking for work, whereas among 25 to 34-year-olds, this rate is 41%. When discouraged workers are included, unemployment rates are as high as 74% for 15 to 24-year-olds and 51% for 25 to 34-year-olds.

This means many thousands of people are pushing into the job market as more and more retirement age people are trying to hold on to work because they just cannot afford to retire. This personal misery for many, of course, adds fuel to simmering social conflict.

The number of people indicating that retirement saving was just "not a priority at this stage of their life" is still high but in decline: 22% of respondents – down from 29% last year and 36% the year before that – chose this rather dismissive answer. That could mean they have lost the "luxury" of choosing how to allocate their discretionary spending, because they now lack that discretionary spending. It could also mean that there is a shift in attitudes towards retirement saving, based on their own recent experience.

Either way, it is a stark reality check. Hopefully when the economy recovers and people find themselves having to choose again, they will remember what it was like to have no money and limited choice and take steps to avoid a repeat of that in future.



Percentages may not add up to 100 due to rounding

Looking at reasons people give for not saving for retirement across different age groups confirms anecdotal evidence that the pandemic pain is widespread, with no group brushing it off altogether.

Across all age groups the number of people who say they cannot afford to save has increased, most significantly in the 16-24 group, where it has increased by 20% (48%, up from 40%). Saying it is not a priority has reduced across all groups except the over 50s, which is not surprising. Real life has got harder, and illusions have been diminished across the board.

There was a large drop in the number of older people saying their business would support them, from 5% down to 1%, indicative that many smaller businesses closed during the pandemic. In that same group (50-plus), more than a quarter now say they are not planning to retire (26%, up from 19% last year), another sign of the harsh reality check that has been imposed on so many.

Pandemic aside, the data continues to show that many South Africans prioritise their current lifestyle, at great expense to their future selves. Some 27% of respondents believe that a comfortable retirement can be achieved with a savings rate of under 10%. The recommended rate for a 40-year working life is at least 15%. Skimping on that additional savings is a terrible trade-off because what they might gain in the short-term (5-10% more take-home pay) means they miss out on receiving 50% more income in retirement.

The road to ruin … I am saving, but …

It is well-established that the great majority of South Africans face a bleak retirement, financially at least. There is nothing in our survey to suggest that is changing, with fewer than 10% of respondents feeling comfortable with their retirement prospects by any measure.

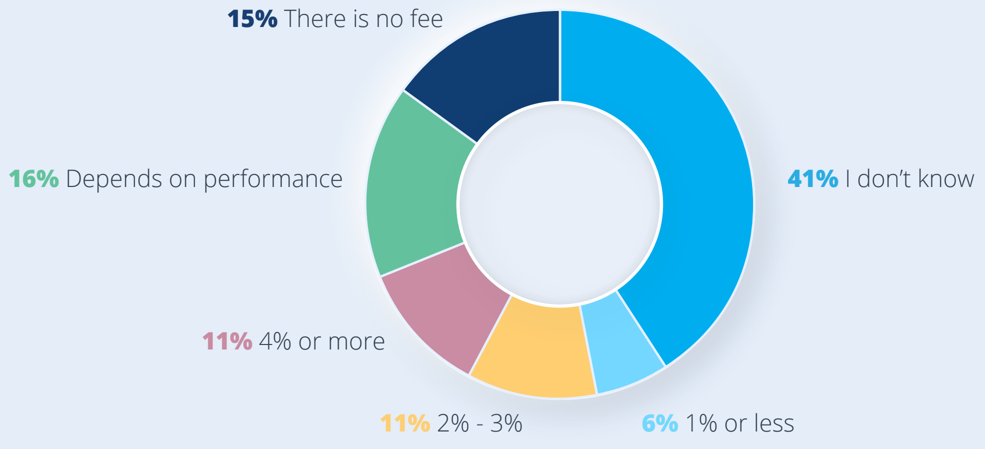
Of those who claim to have a retirement savings plan of some sort, just 7% are confident that they are on course for that seemingly old-fashioned notion of retirement: living off accumulated savings.

For those who do have a savings plan of some sort, most are probably not saving enough, their savings may not be invested appropriately, many are likely to lose a lion's share of their growth to high fees, and almost all are not engaged enough to tackle these and other issues. Not knowing anything about their corporate retirement savings plan (often because they don't care) is an underlying problem in many of these cases.

It is in everyone's interests that all South Africans have some sense of how they will support themselves in retirement, to work out what they will need, to have a savings plan, and to engage with it regularly to stay on track.

Starting early and saving consistently are the key pillars to success. So, too, is avoiding cashing out along the way. Other key success factors are investing for growth and the level of fees paid. All these factors have a material impact on the eventual retirement income.

Fee paid in total for current retirement annuities



Percentages may not add up to 100 due to rounding

There is no doubt that high fees are a contributing factor in South Africa's retirement crisis. Seemingly small regular charges against savings compound to leave a large hole in pensions. In the context of a consistent 40-year savings regime, for example, someone paying 3% in fees rather than, say, 1% pa, receives almost 50% less money at retirement.

Every year, the number of people who do not know how much they are paying away in fees continues to surprise. Even if it has improved this year to 41% (from 49%), combined with the number who think there is no fee at all, more than half of those people who say they have a plan of some sort (56%) seem to be very much in the dark on what they are losing to costs.

Knowing what something costs is key to understanding its value, even more so in the case of a long-term investment, where the effect of high fees compounds over time.

The fact that more than 1 in 5 people say they are paying above 2% pa (with 11% indicating they are paying in excess of 4%!) shows that many investors do not understand the crippling effect of compounding fees. Alternatively, they may not be aware that high performing funds are available at very low cost.

In conclusion: the pandemic has made it harder to save for retirement … and easier to see why everyone absolutely should save for retirement.

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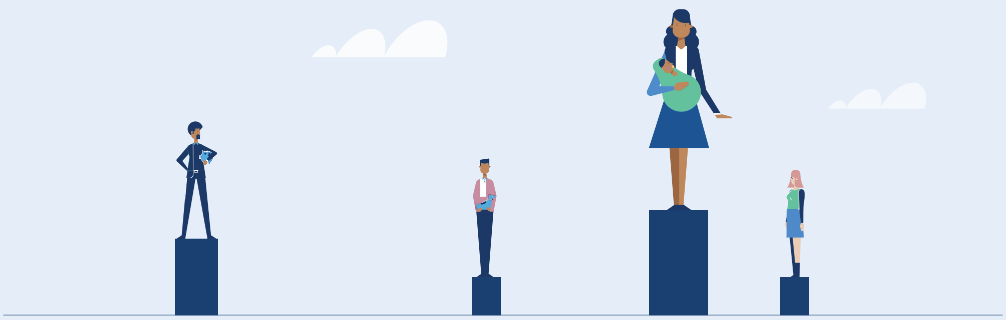

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