10X INVESTMENTS

South African **Retirement Reality Report**

2022

When 10X Investments published the inaugural South African Retirement Reality Report, in 2018, the intention was to build awareness and understanding of the looming retirement crisis in the country with a view to inspire change. Subsequent reports have shown that the outlook is worsening by most measures as South Africans focus their attention on overcoming more immediate financial pressures, brought on by the pandemic containment measures, rising prices and interest rates, and a precarious job market.

But, in focusing only on their near-term circumstances, which are largely outside their control, and ignoring what is important long-term, where minor changes can deliver huge returns down the line, they may condemn themselves to living in perpetual crisis mode.

This report, RRR2022, shows that the warnings of the last four years have had little effect, and retirement still holds the prospect of deprivation and disempowerment for most South Africans. By ignoring our individual responsibility in this regard, we are responsible for the broader national calamity that will burden future generations.

While the economic pain of the last few years has magnified our society's vulnerabilities and caused havoc to ordinary lives and livelihoods, financial markets charted their own course, detached from the hardship on the ground.

Central banks in the more developed economies of the north responded to the pain felt during lockdowns with rate cuts and fiscal and monetary stimulus packages, "easy money" which found its way into the pockets of their consumers, and markets globally. As a result, 2021 was a good year for investors, with the JSE delivering its best return since 2009.

Unfortunately, the increased demand came at a time when supply was constrained by the same global crises, triggering an inflation wave that has also reached South Africa. Year-on year, our headline consumer price index grew at 7.4% in June, the fastest in more than a decade. In the US, the rate hit 9.1% in June this year, a 40-year peak.

With the stimulus being unwound now and rates on the rise again around the world, markets have given back some of their recent gains, a double whammy for retirees who must contend with rising living expenses and lower portfolio values. Those approaching retirement with underfunded pensions (the great majority, unfortunately) may find their retirement budgets and lifestyle expectations going out of the window, for the time being at least.

Economists, analysts and historians may in time be able to make some sense of global events but, for the average investor, the focus is on surviving them. Volatility like we have experienced this year highlights our vulnerability to global events; it also underlines the importance of individual financial security and resilience.

10X's Retirement Reality Reports shine a light on areas where individuals and employers have the potential to improve outcomes. Our research over the years shows that poor saving habits and choices, often the result of a lack of education or willingness to engage with the subject, are a significant part of the problem. These can be addressed, and savings outcomes can be improved, regardless of the chaotic times we live in.

Financial education – either delivered formally though the school system or in the workplace, or self-taught using online resources, as our children have become accustomed to – and a higher level of engagement among the working population would potentially lead to improved behaviours and choices on an individual and company level, and help defuse the retirement timebomb.

One bright spot in this year's survey is that the steady deterioration in a key trend has halted, reversed even. The share of people not providing for retirement at all has reverted to the 2019 level of 46%, after hitting 50% last year.
That leaves 54% of people indicating that they have a savings plan of some sort, although most of them will admit they don't know too much about it.

As with our previous reports, RRR2022 shows a widespread lack of retirement planning, a lack of engagement that often manifests in hubris and unrealistic expectations which, in turn, leads to further disengagement.

Employers can play a big role here. Our survey finds that more than half of those who say they have a plan belonged to a corporate scheme at some point, suggesting this is an introduction to retirement saving for many. However, just 36% believe they have a good understanding of their fund; another 25% admit they have no idea at all or aren't really interested.

Suggesting a great opportunity, the remaining 39% say they know little but wish they knew more. That is a lot of people who are effectively a captive and keen audience.

The fact that 60% of those corporate members who had the option to cash in their savings on leaving a job took it talks to the potential benefit of educating this audience. Other surveys suggest the number is as high as 80%. Cashing in savings, a choice that is often made lightly but has severe consequences, should be a last resort. If fund members were properly informed on the consequences, many more might avoid it altogether, or at least limit the damage by cashing in just a portion.

Increasingly, however, the data shows that for the majority the issue is not simply one of unrealistic expectations or ignorance, but of economic hardship: 70% of people surveyed say they simply cannot afford to save because there is nothing left at the end of the month.

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.

Even as this year's report finds that economic times are tougher across all income and age groups there are small improvements, such as the lower percentage of respondents without a plan.

As we noted last year, the pandemic increased awareness of our vulnerability to life's unexpected broadsides. By offering a glimpse of what it feels like to suddenly live off a reduced income or no income at all, the RRR2020 and 2021 expressed hope that the pandemic would be a wake-up call to many that they cannot afford to ignore retirement.

Last year's improvement, by a third, in the number of people who said they were executing a properly thought-through retirement plan, seemed to support this. There is no further improvement in this measure in RRR2022; it remains at 8%.

Just 7% of respondents feel confident that they are on course for financial independence in retirement, with the other 93% accepting that they will probably have to supplement their income after they retire, or feeling sure about this.

It is hard to imagine how that will be possible, looking at our unemployment figures. According to Stats SA's Quarterly Labour Force Survey (QLFS), the official unemployment rate was 33,9% in the second quarter of 2022. According to the expanded definition of unemployed people (which includes discouraged work-seekers) the figure was 44.1%.

As South Africa's unemployment and retirement crises put an ever-greater squeeze on those in the middle who are lucky enough to have an income, the focus needs to be on what each South African can do now to change course and take some pressure off their elderly self and their families.

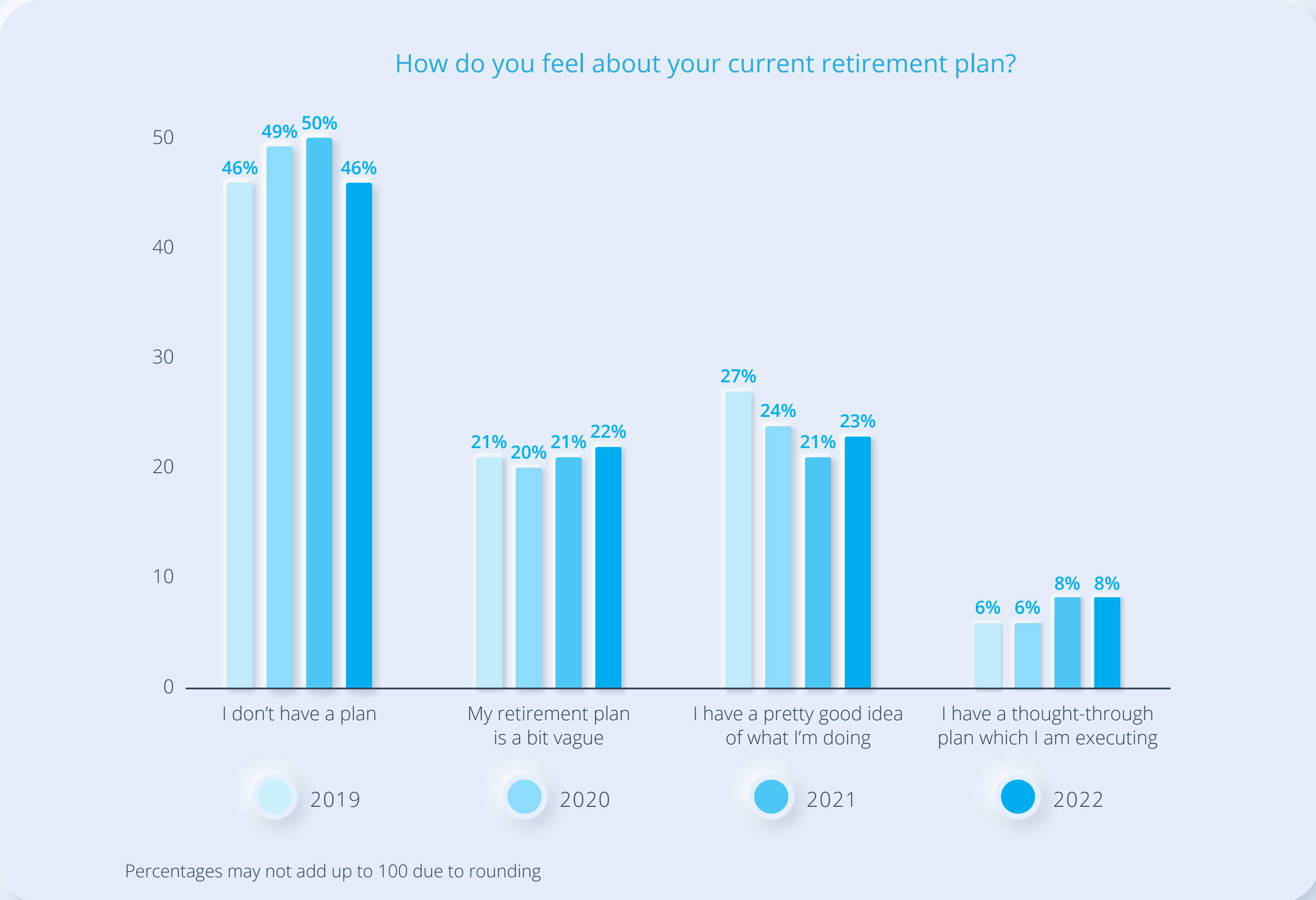
Small, mostly painless adjustments on the part of investors in a few key areas would significantly improve retirement outcomes. Modest increases in the savings rate, starting to save earlier, preserving savings along the way, investing for growth, maximising the benefits of corporate fund membership and keeping costs down are all factors within the control of individual savers.

BRAND ATLAS

This report is based on findings of the 2022 Brand Atlas Survey. Brand Atlas tracks and measures the lifestyles of the universe of 15,4 million economically active South Africans (this year defined as those living in households with a monthly income of more than R6,000, aged 16+, with internet access) through online completion surveys. This economically active South African universe makes up 30% of the SA population. 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?**



A steady deterioration in the number of South Africans proactively anticipating their retirement, evident from our past surveys, halted this year, even reversed a little. 46% of people polled said they don't have a retirement savings plan, an improvement on 50% last year and 49% the year before that. It remains to be seen whether this is the start of a permanent trend reversal. Irrespective, in absolute terms the percentage remains alarmingly high, and does not portend well for the future.

On the other end of the scale, the percentage of people saying they were executing a properly thought-through retirement plan, has remained steady at 8%. That figure improved last year, by a third, from 6% the previous two years, but, in a country without meaningful social security, it remains stupendously low.

Combining those who have "a pretty good idea" about their retirement plan (23%) with those who have a "thought-through plan" makes for a relatively positive cohort that is growing. 31% of respondents, up from 29% last year, fall into this group, which had been getting smaller over the preceding years (2020: 30%; 2019: 33%).

But having a "pretty good idea" suggests familiarity rather than insight – not knowing what they don't know – and hints at the superficial understanding and relaxed approach that many South Africans bring to the subject. That people tend to prefer these middle-of-the road self-assessments – "vague idea" and "pretty good idea" – without fully committing to where they stand on this subject, and how they feel about their retirement plan, probably talks to the general lack of engagement.

With the 10X Retirement Reality Report now in its 5th year, the consistency of outcomes gives more credence that the numbers are as bad as the surveys suggest. The bottom line is that 68% of people surveyed (2021: 71%, 2020: 69%; 2019: 67%) say they have no retirement savings plan at all, or just a vague idea of one. That translates into a lot of people who will probably be forced to rely on family and friends, or to try to eke out a living on South Africa's older person's grant (state pension) of a maximum of R1,980 per month (R2,000 for those older than 75).

START WITH A PLAN

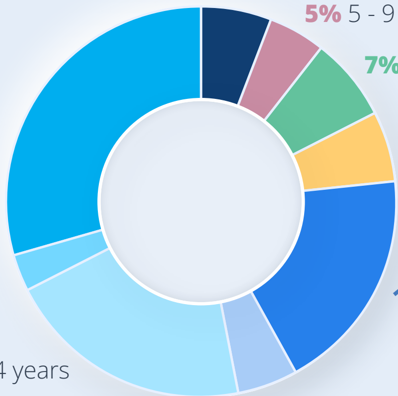
Creating a retirement plan is not complicated or onerous. Visitors to the 10X Investments website can build an individual plan for free in minutes. Simply insert information about themselves (age, earnings, current savings) and let the system do the rest.

Editor's note

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

- 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

Perceptions have barely changed since last year's report in terms of how long people think it takes to save for a comfortable retirement. Almost half those surveyed think they can save for retirement in less than 30 years.

It is recommended that workers save throughout their working life, an average of 40 years, keeping the required savings rate at a manageable 15% of earnings. Skipping the first 10 years exacts a disproportionate punishment because money invested in the first years will grow the most. Thanks to the benefit of compounding, small amounts invested in a well-diversified high equity fund at a low cost will grow to amounts that might be difficult to imagine at the start of a savings programme.

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. This issue is a significant contributing factor to SA's retirement crisis. Education, and a cultural change based on the understanding of the difference it makes to start saving at a younger age would potentially unlock massive positive change.

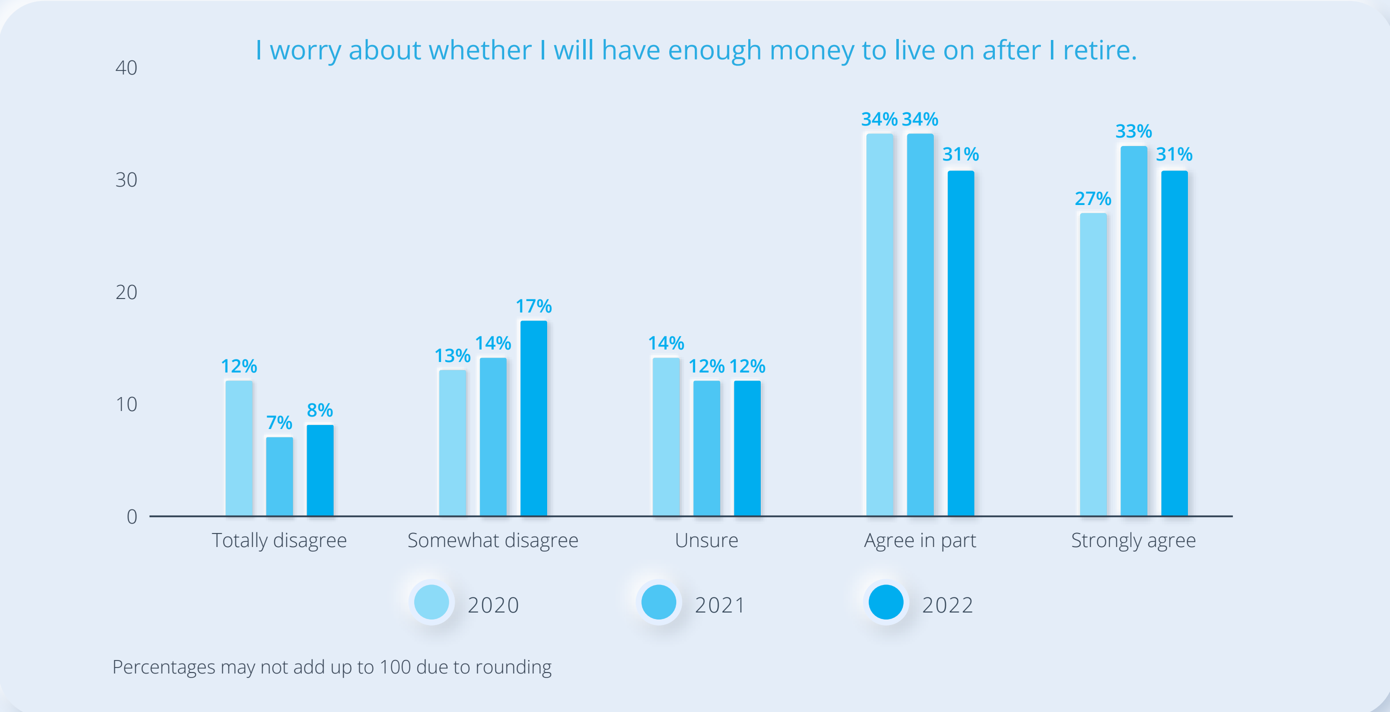
START YOUNG
Rather than starting late and trying to make up for lost time, the message should be save like crazy at the beginning and leave the money to compound.

In the context of an adequate 40-year retirement savings plan, the money invested early on has an outsized impact on your outcome. Your first 10 years of saving get you halfway to your goal, thanks to compound growth. Starting just 10 years later (ie saving over 30 years) results in almost two-thirds less money at retirement.

Similarly, someone who starts saving early but then cashes in retirement savings after 10 years, for whatever reason, cannot easily make it up. You would have to save a significantly higher percentage of your income (25%, say, or 35%, rather than the recommended 15%) to achieve the same outcome.

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?**

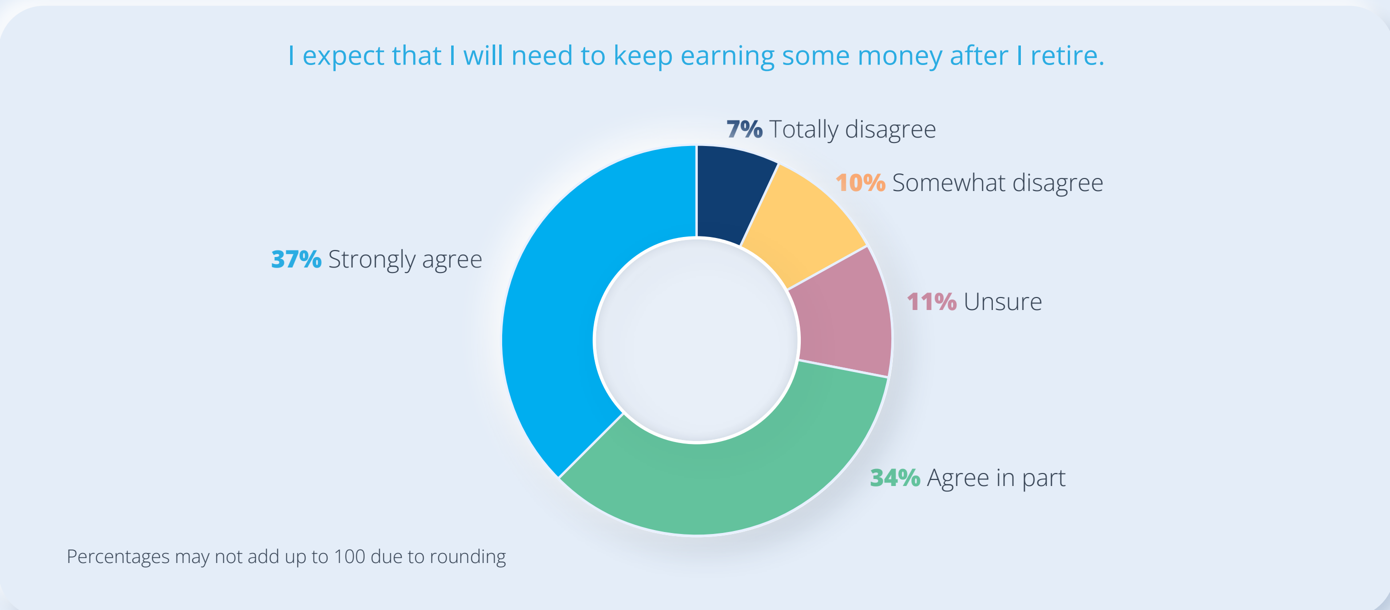


Things continue to look very bad, even for those who do have some sort of savings plan, with nearly three-quarters of respondents in this category (74%) worrying about whether they will have enough money to live on in retirement, and another 17% a little on the fence.

Just 8% were not worried at all (up from 7% last year, but still well down from the 12% in 2020). On the other end of the scale, those who feel sure they won't have enough to live on after they retire was down to 31% from 33% last year (2019: 27%).

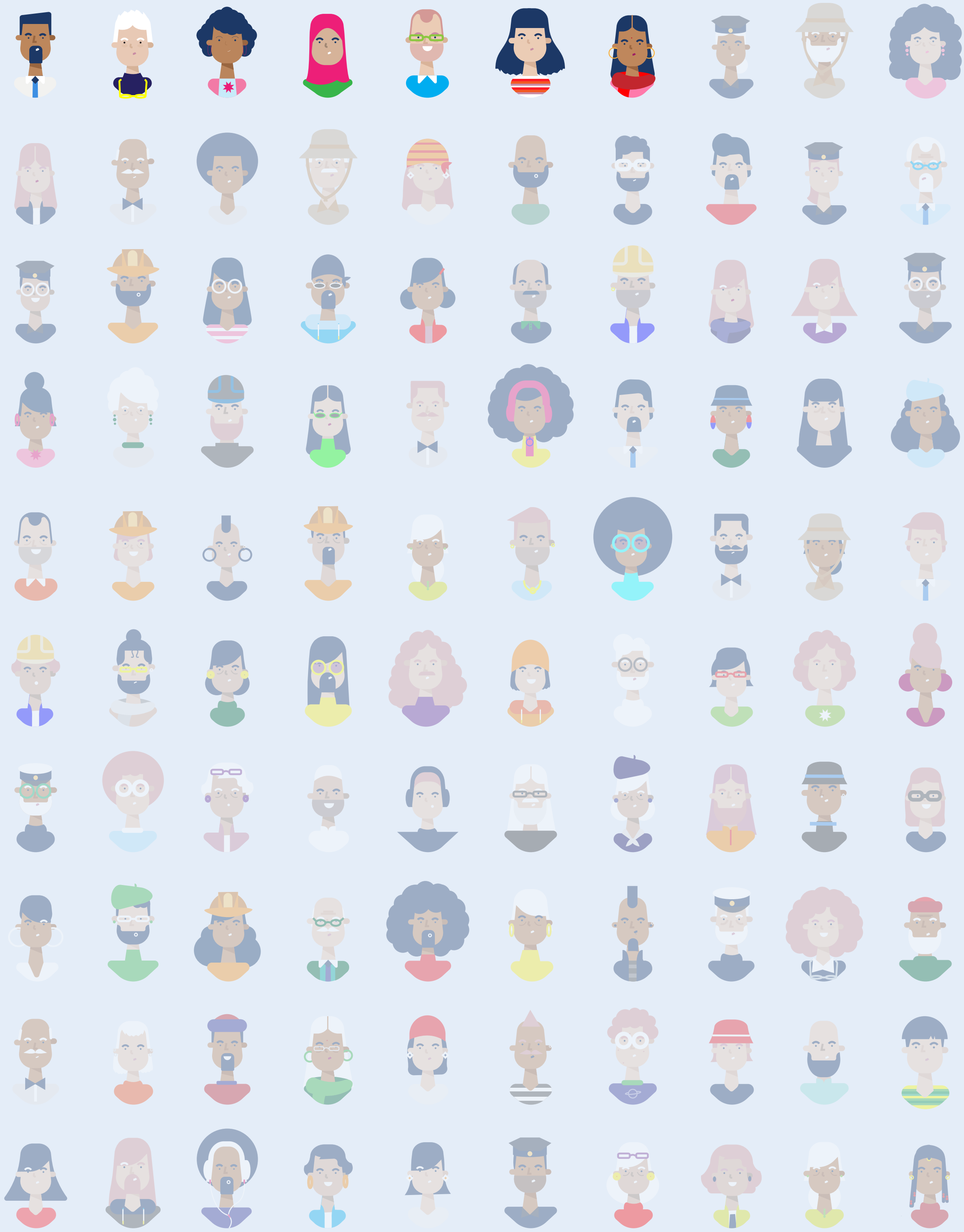
High levels of concern about having enough money in retirement continue to present across all income brackets although the numbers have improved a little: 78% (down from 84% last year) of those with total monthly household income (HHI) of less than R20k said they felt concerned or were unsure about having enough money in retirement, as did 76% (2021: 80%) of those with a HHI between R20k and R50k and 69% (2021: 70%) of those whose HHI was upwards of R50k per month.

According to a World Bank report released in March 2022 Inequality in Southern Africa: An Assessment of the Southern African Customs Union: South Africa "is the most unequal country in the world, ranking first among 164 countries in the World Bank's global poverty database". In such an unequal society, it is noteworthy that concern about running out of money in retirement is only moderately related to current income.



Most survey respondents 71% (2021: 74%; 2020: 77%) believe they will have to generate some income after they retire. Another 21% (up from 19% last year) are not very sure, leaving an unchanged 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.

Looking at different income groups: last year a mere 6% of those with a household income of R50k and above felt sure they would not have to keep earning after they retired, a hope they shared with 7% of the two other income groups (R20k-R50k annual HHI and HHI under R50k). This year the hopeful cohort was smaller, except for those in the lowest income bracket, which underlines that future financial dependence is not a function of our income but rather of how we deal with that income.



Things would appear to have 'improved' for respondents in the lowest income group (HHI under R20k), where 10% now disagree with the statement that they would need to keep earning income after retirement, compared with just 4% of those in the R20-R50k HHI bracket and 6% of those in the R50-plus income bracket.

However, this apparent uptick in prospects for the lowest income group could be just a realigning of expectations with their reality. People in the lowest income groups would be the first to be forced to accept that earning an income after retirement is not realistic. Lower down on the earnings brackets people will generally be more aware of high levels of unemployment and are more likely to acknowledge future dependence on family/friends and other compromises.

In tough times, people who are higher up the chain can often accept work below their regular station, which would have a further negative effect on the people occupying positions in lower income brackets.

Much like the difference between being jobless and actively seeking work, which are the two widely used measures of unemployment, changing your expectations (of, say, securing a job or earning money in retirement) can be less a sign of a change in your circumstances than accepting your reality.

Apart from these nuances, the picture is largely the same: 80% of respondents with annual household income (HHI) of less than R20k say they might have to or would definitely have to earn some income in retirement, as did a total of 87% of those in the R20-R50K HHI income group and 80% of those whose households earned more than R50k a year.

This data, remember, is for respondents who said they do have a retirement savings plan of some sort, which underlines how achieving financial security in retirement is less about how much we earn, and more about how much we engage in the process, inform ourselves and save.

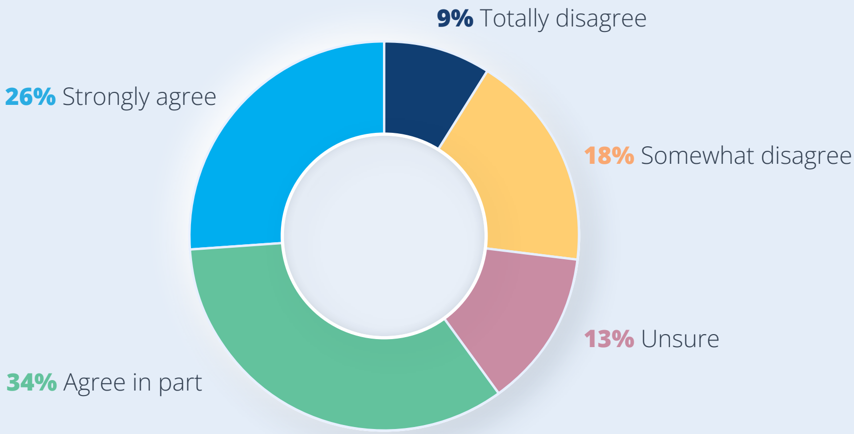
It also highlights once more the fact that having a retirement savings plan is not enough. The plan also needs to be workable and realistic, and there needs to be follow-through.

IDENTIFY A SPECIFIC GOAL AND CREATE A WORKABLE PLAN

The 10X Investments retirement calculator will work out how much money someone will need to preserve their lifestyle in retirement based on their current age, earnings and savings. It will also calculate how much they need to save, starting now, to reach that goal.

The proportion of people who expect to continue earning money in retirement is particularly alarming, considering South Africa's unemployment figures. According to Stats SA's Quarterly Labour Force Survey (QLFS), the official unemployment rate was 33,9% in the second quarter of 2022. According to the expanded definition of unemployed people (which includes discouraged work-seekers) the figure was 44,1%.

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 still need to earn an income in retirement is somewhat undermined by the fact that 60% (2021: 62%) of respondents say they expect to enjoy the same or similar standard of living when they retire.

These perceptions do not add up: 74% of respondents don't feel confident they will have enough money to live on in retirement, 71% expect to have to generate some income in retirement, yet 60% believe they will be able to maintain their standard of living. Too few people seem to appreciate how having too little money saved for retirement will impact their future lifestyle.

WORK OUT WHAT YOU WILL NEED
The 10X retirement saving calculator will set you a savings target based on what it will cost to preserve your lifestyle in retirement.

There also seems to be little appreciation of the fact that for most of us, the end of formal employment is an inevitability, rather than a choice, and that many will be forced out of their jobs before they feel ready psychologically, or financially.

This year, 62% (down from 70% last year) of retired respondents said they retired when they had wanted to, 34% (up from 29%) claim they were forced to retire before then, and 4% (up from 2%) said they had to work for longer than planned. Find out more about retired people and how their reality lines up with the expectations of those not yet retired in Chapter 5.

THE COST OF PRESERVING YOUR LIFESTYLE IN 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 gave 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 maintenance of a vehicle), retirees will probably also spend less on wardrobe and 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 part of their gross salary each month into their retirement fund will also no longer 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.

CRUNCH THE NUMBERS
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. It is critical to consider the impact of costs on return expectations, a factor that is often overlooked. There are calculators on the 10X Investments website that will do the heavy lifting for you.

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

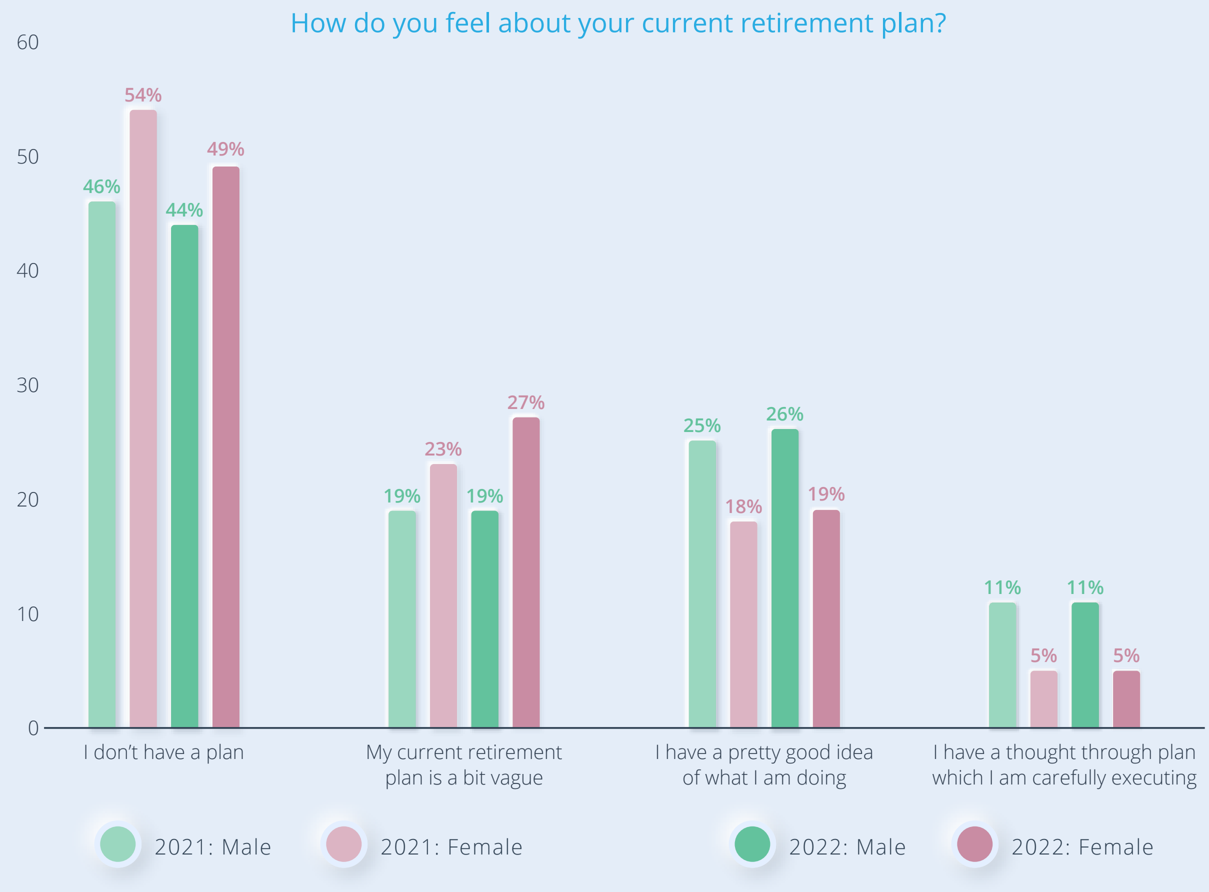
10X Investments' first four Retirement Reality Reports drew a picture of unequal, often worsening, statistics for women in South Africa. Unfortunately, the RRR22 adds another layer to that picture.

Simply put, women are worse off than men, according to almost all measures. Partly this is due to the systemic gender disadvantage, which tends to start 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 factors compound and carry over into retirement.

Women are also often victim of their own poor behaviour and choices. They are less likely to plan for retirement than men (49% v 44%), they are less likely to have a good understanding of their corporate retirement savings scheme (30% v 41%) and they are twice as likely not to have any idea what is going on (19% v 9%).

Women are more likely not to save or invest (44% v 35%), and less likely to invest in growth assets (15% v 23%), or at least split their savings between cash and growth assets (12% v 16%). They are also 50% more likely to cash in their retirement savings when leaving their employer.

Somewhat ironically, in the light of these numbers, 73% of women rate their level of financial literacy as good, or good enough to get by, compared with only 67% for men. It is not surprising then that our Retirement Reality survey shows that the retirement readiness gap between the sexes persists and, by some measures, is getting wider.



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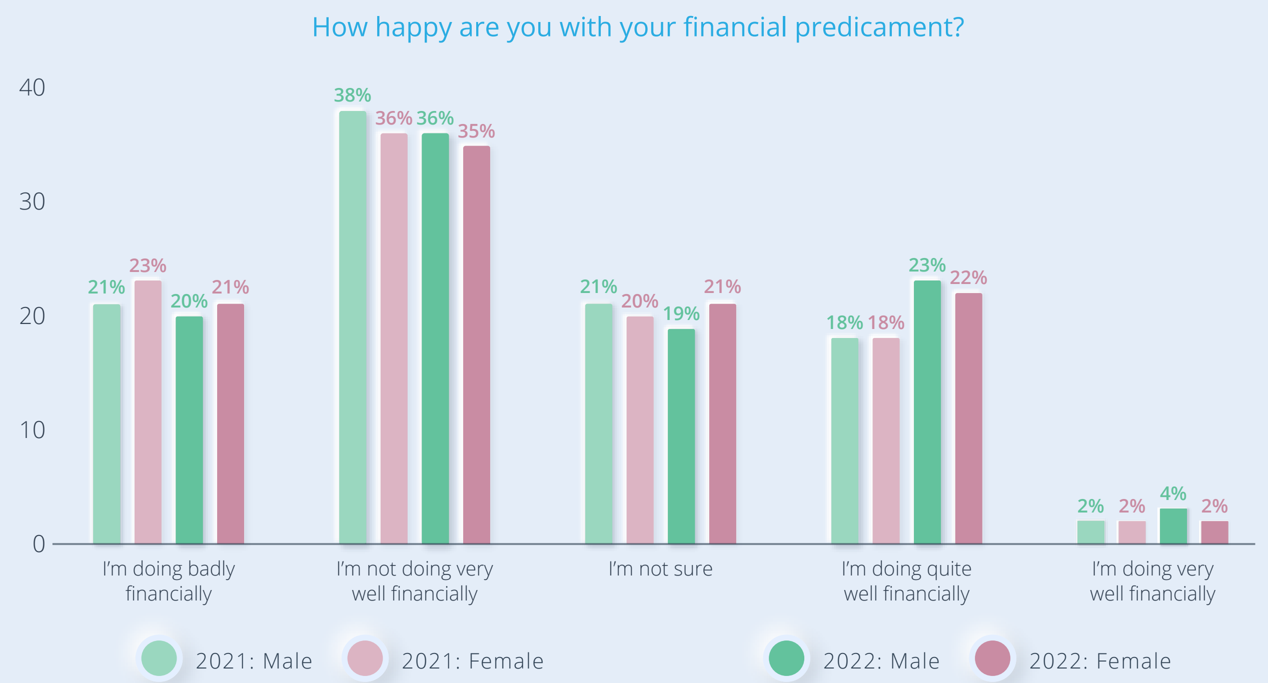
The gap between men and women in terms of the number who do not have a retirement savings plan at all narrowed this year but at 49% (2021: 54%; 2020: 53%) is still 10% higher than for men, at 44% (2021: 46%; 2020: 45%). Both percentages are unacceptably high.

There is no change on the other end of the scale, the small cohort of people who are confident they are on a clear and positive path to a comfortable retirement: 11% of men and 5% of women say they are executing a considered retirement savings plan.

What we see in this survey is a small narrowing of the gap between men and women and a slight improvement all round on this measure. But a lot of men (45%, up from 44%) and women (46%, up from 41%) remain clustered in the rather ambivalent middle ground of “My retirement plan is a bit vague” and “I have a pretty good idea”.



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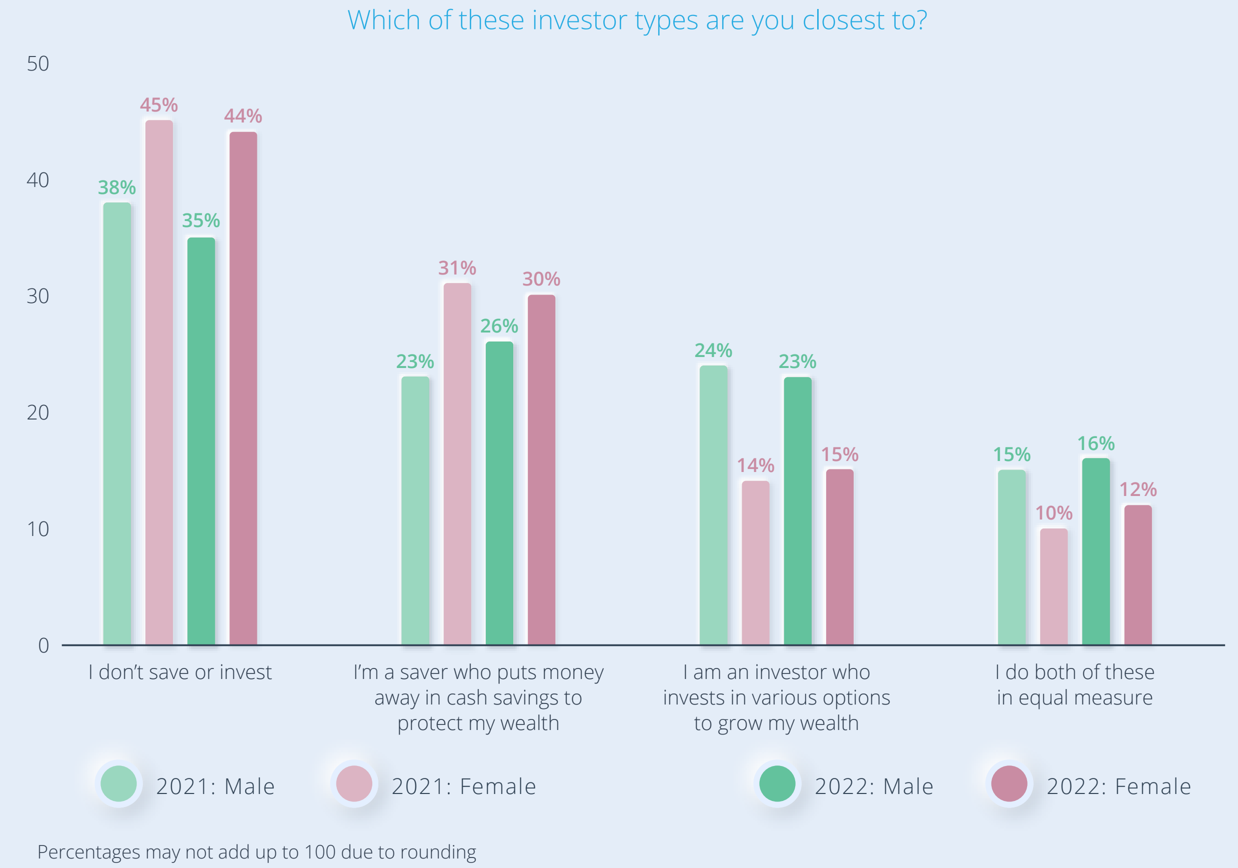
This year, 75% of men reported that they were not doing well financially or were unsure how they were doing, an improvement on 80% last year, compared with 76% of women, also better than last year’s 79%. This represents an improvement on last year’s negative trend for both men and women and a narrowing in the gap between the genders.

Last year, the gap between men and women who described themselves as doing very well financially closed, but for the wrong reasons. The proportion of men falling into this cohort declined from 4% in 2020% to 2%, where it remained for women from the year before. This year, the figure for women remains at 2% while men have opened the gap again with 3% of them falling into this cohort. This 1 percentage point increase may reflect men’s greater willingness to invest in growth assets, and the wealth effect created by last year’s heady stock market returns.



While the data continue to show that women are less likely to invest appropriately to increase their wealth and narrow the wealth gap, there are incremental improvements in important metrics.

INVEST FOR GROWTH
Investing in a portfolio of well-diversified growth assets and keeping fees low is a more effective way to build wealth than saving in cash-type products.

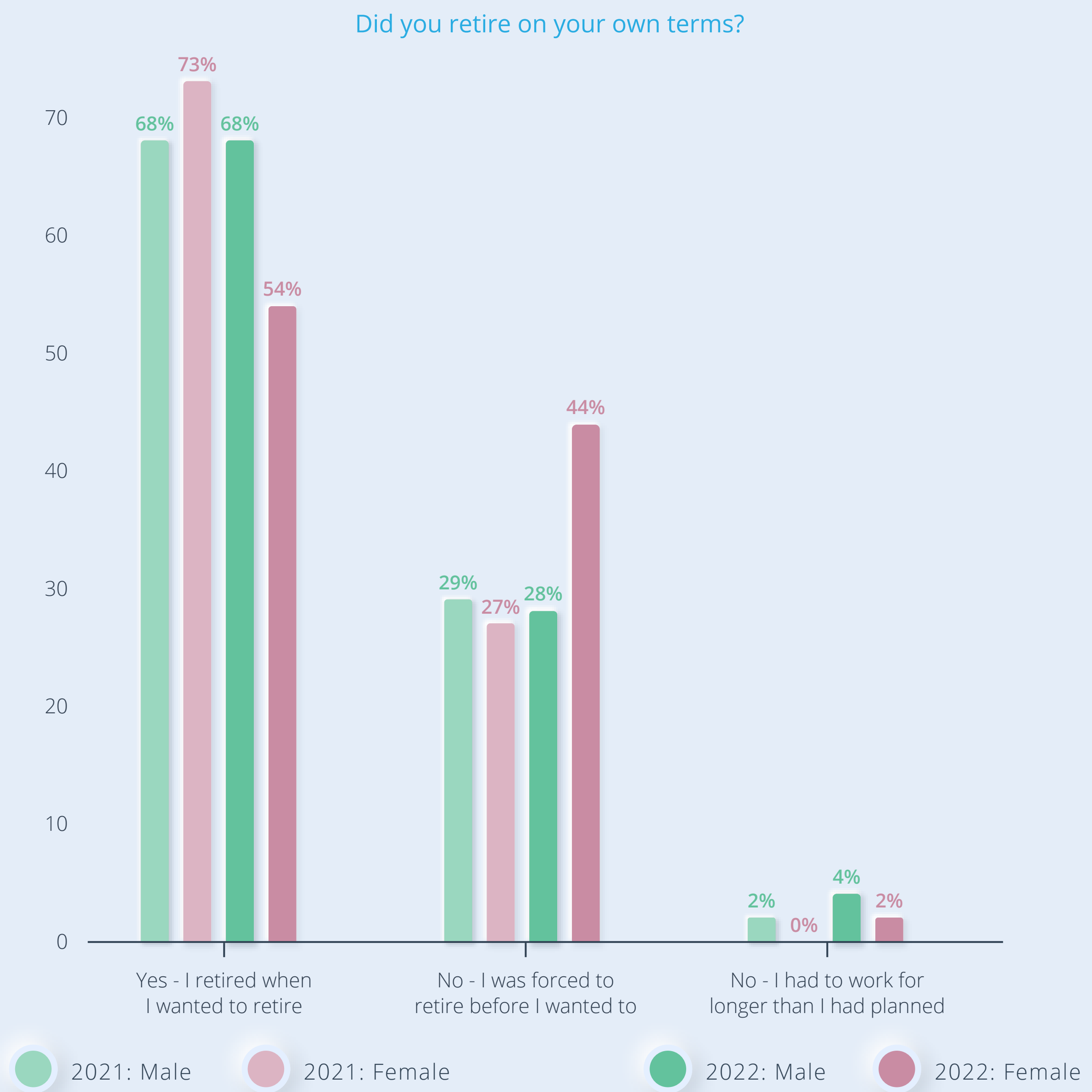
The percentage of women who are adopting a more sensible approach of investing (rather than just saving) is ticking up, even if it is off a low base. This year, 15% women surveyed said they invested their money for growth, up from 14% in 2021 and 13% in 2020. For men, the trend edged in the wrong direction this year, being down to 23% from 24% in 2021 and 22% in 2020.

Including respondents who said they invested as well as saving cash, the number increased to 27% for women, up from 24%, and stayed steady at 39% for men.

The proportion of women, at 44%, who are not saving or investing at all was a little improved on last year's 45%, a measure where men widened the gap, falling to 35%, from 38% last year. Among those who are saving, the gap between women and men narrowed significantly. Women are still more likely than men to be cash savers: 30% (2021: 31%) compared with 26% (2021: 23%) of men, but the gap between the genders narrowed to just 4 percentage points here.

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 a savings account, where the interest earned is often lower than the current inflation rate, destroys rather than builds wealth.

In total, 74% of female respondents indicated that they don't save, or, if they do, don't invest their savings for growth. Until this changes, they have no chance of earning a decent income in retirement.



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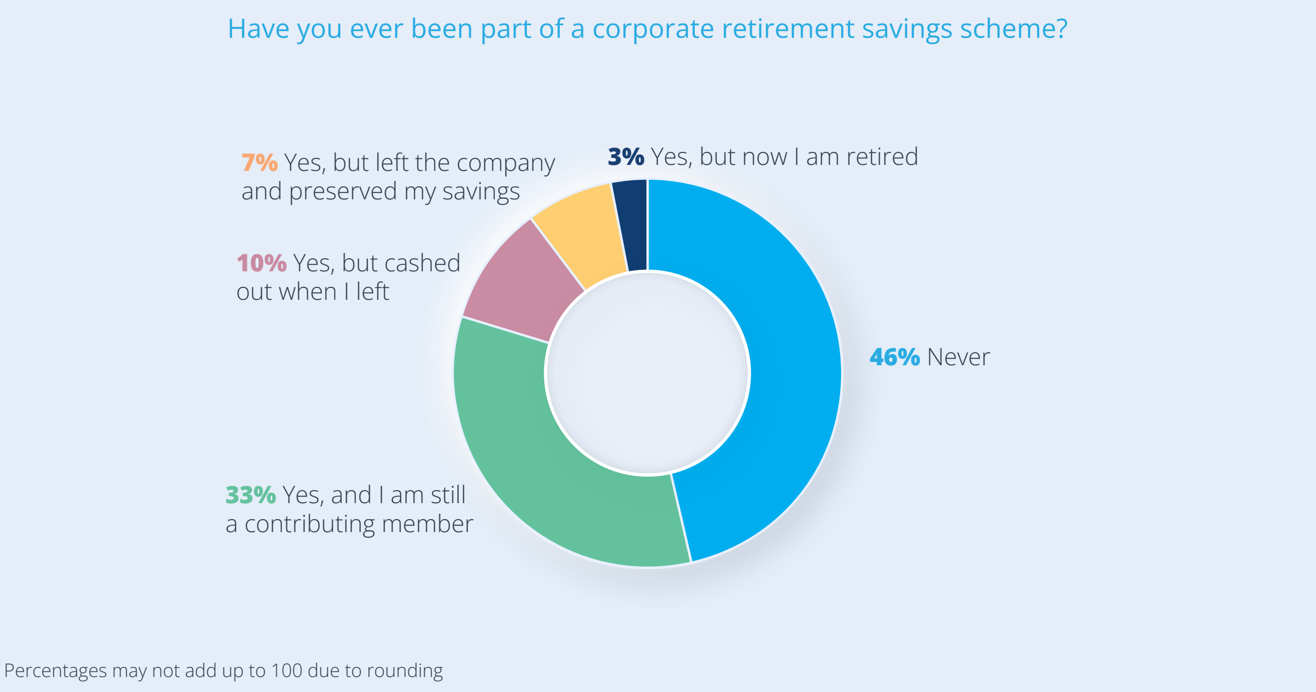
Data in the survey for retired people, limited as it is (small number in sample), seems to tell the same story: 68% of the retired men said they had retired when they wanted to, compared with just 54% of women, and 44% of female retirees said they had been forced to retire earlier than they were ready, compared with 28% of men.

It is not clear whether that is due to some form of corporate gender discrimination, the nature of the work being done, or merely reflects that women are financially less prepared to retire than men and would prefer to work more years.

But knowing that this this is the reality on the ground is another thing to be factored into a financial plan. This has added importance for women who intend to take time off formal employment to have a family. They should try to allow for it by saving at a higher rate during the early work years, and making sure those savings are properly invested and preserved.

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

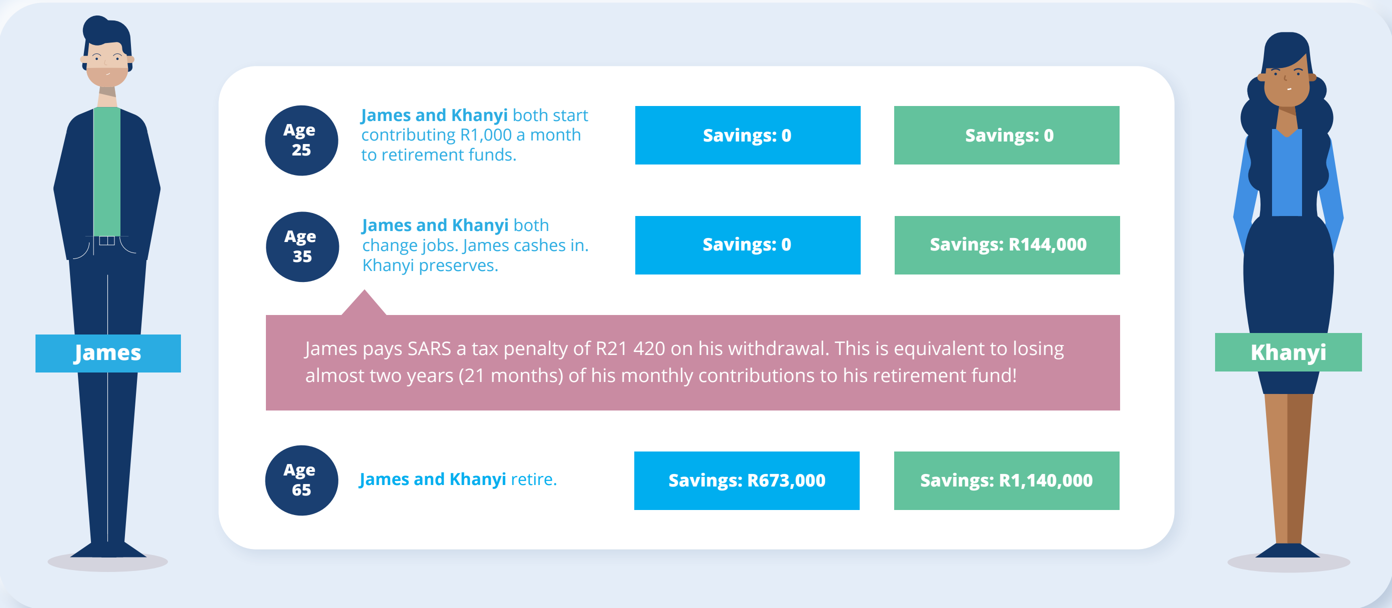


More than half the respondents with a retirement savings plan (53%) said they were members of a corporate retirement savings scheme or had at some point belonged to one. This illustrates a missed opportunity, considering the general low level of understanding about retirement saving in South Africa, 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, 60% of those people who left a corporate scheme cashed out their savings.

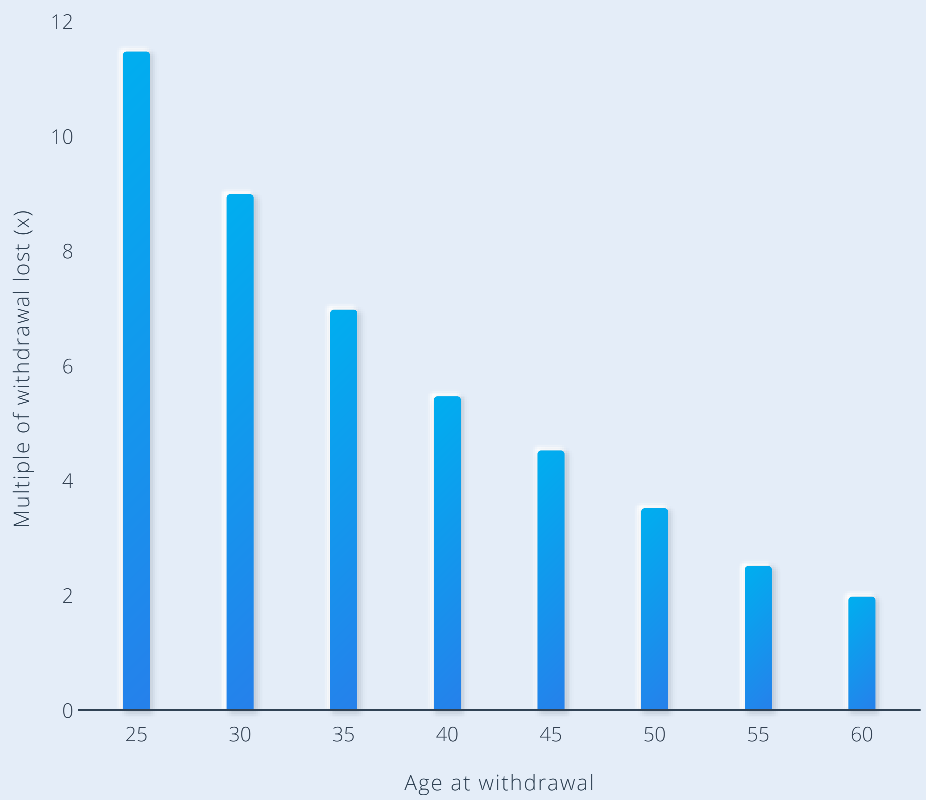
There is no doubt that in today's economic climate many of those who cash out their savings, especially those who have lost their job, have no other realistic choice. Even if they are aware of how much they will lose over the longer term, immediate, pressing concerns, such as hungry children or being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

That accounts for only some of this group, however. Evidence from earlier RRRs and the wider industry, shows that the number of corporate fund members who cash out their savings despite not having an urgent 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

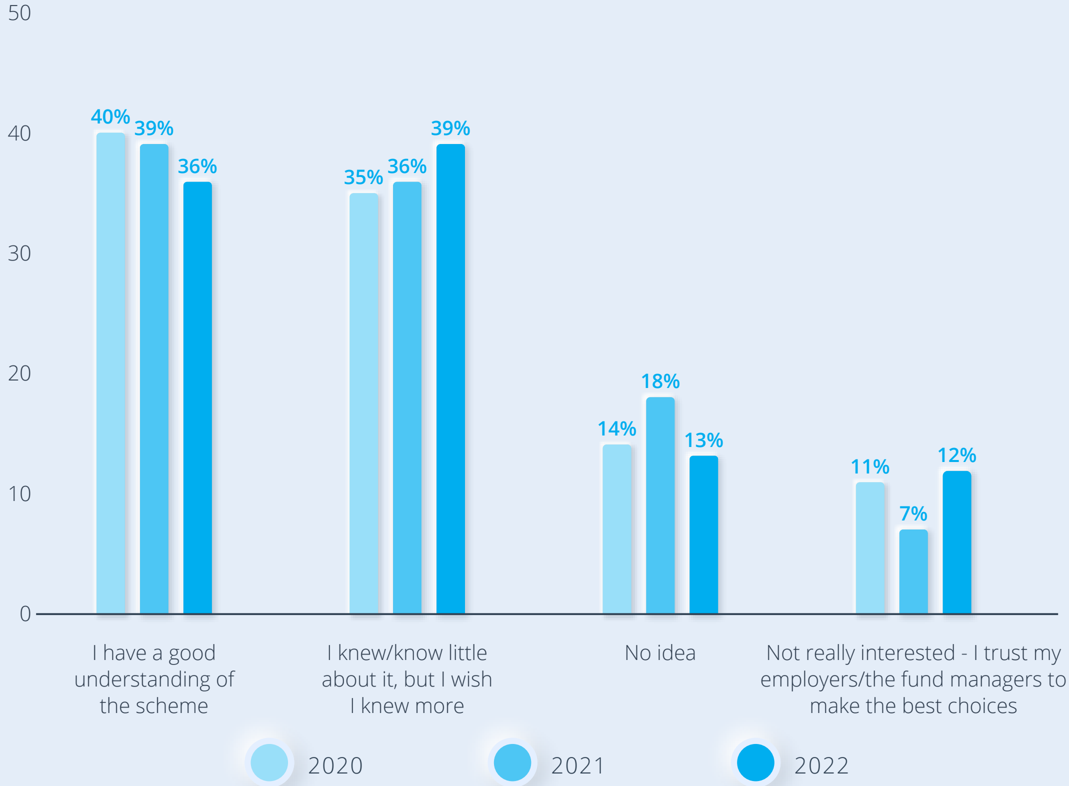
Treasury's 'two-pot' proposal to allow retirement savers to access some of their savings (up to one-third of contributions, plus growth thereon) seeks to moderate the impact of early withdrawals by imposing mandatory preservation of the balance until retirement. It is an attempt to help savers balance 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 with 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.

DON'T THROW IT ALL AWAY

When leaving a job retirement fund members should think carefully about what to do with the savings they have accumulated. 10X's free downloadable ***ebook*** outlines the options.

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. The majority admitted to knowing very little about what is likely 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 at least partly to blame. While these may be contributing factors, there is no shortage of insight freely available online, enabling those with the necessary interest to fully inform themselves. 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, abdicate responsibility for the outcome. These two factors are mutually reinforcing: the more intimidating the subject appears, the less likely that members will engage.

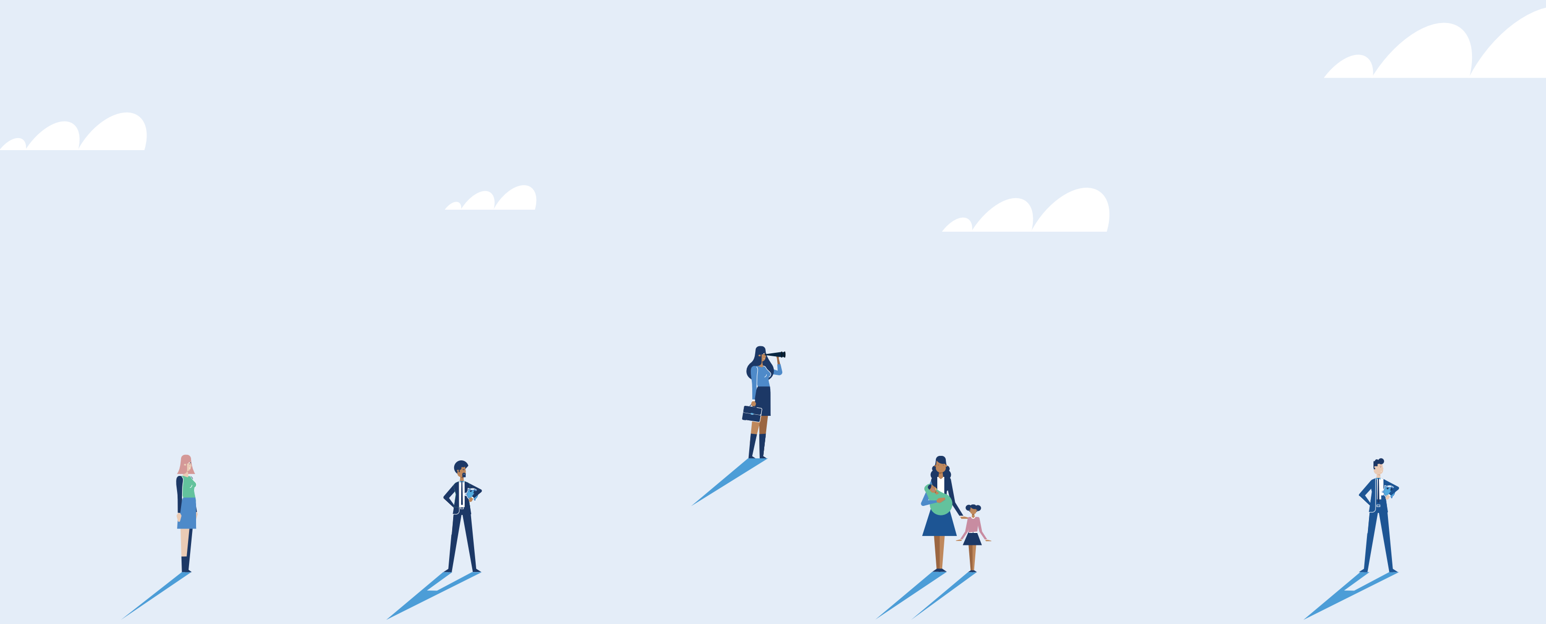
MAXIMISE BENEFITS
Everything you need to know about membership of a corporate fund can be found in 10X's free downloadable ebook, ***The South African guide to corporate retirement funds.***

Presuming that their employer has done the due diligence for them, some question why they should bother, as evidenced by the 12% who said they were not really interested because they trusted their employers and/or fund managers to make the best choices. That is up from 7% last year. Although the proportion of people with "no idea" decreased from 18% last year to 13%, combined, a consistent 25% of fund members don't monitor the management or performance of their retirement savings fund.

On a more positive note, the majority of members who said they knew little-to-nothing about the fund said they wished they knew more. 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 goal based on their retirement plan.

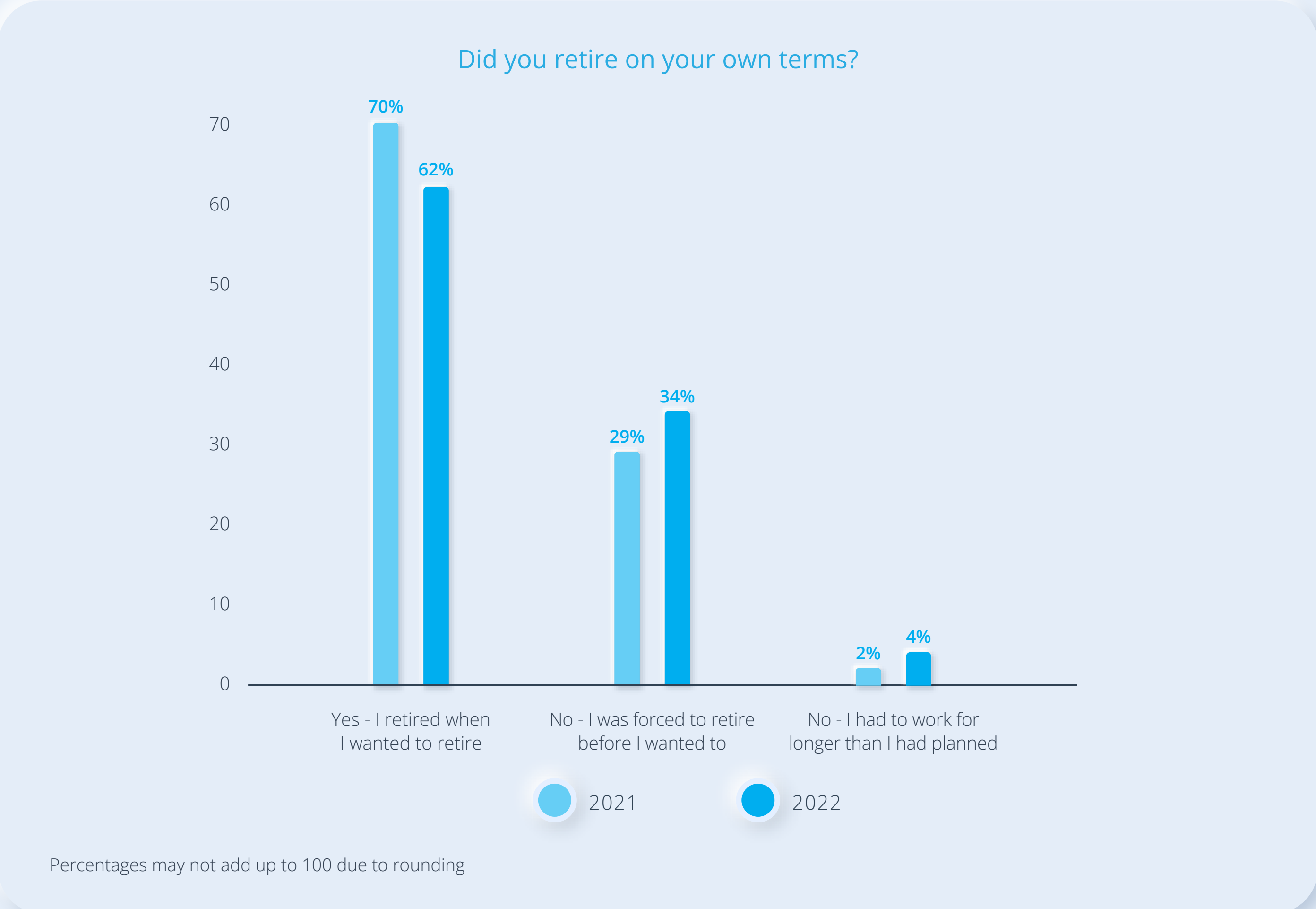
It has been more than three years since it became compulsory for a fund to provide counselling to exiting members on the choices – and the effect of these choices – available to them (preserve with the existing employer, transfer to the new employer's fund, preserve in a preservation or RA fund, or cash out, in whole or in part), with in-fund preservation as the default. The data for this survey has not yet illustrated the benefits of this, which would be a decline in the percentage of respondents who don't preserve at least a part of their savings on changing jobs (although, admittedly, the survey also incorporates behaviour before the new rules came into effect).



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.



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 be forced to stop working before they feel ready, physically, psychologically, or financially, and others will have to work longer than they would like.

Of the survey respondents who have retired, 62% said they retired when they wanted to, a steep decrease from 70% last year. A high percentage of reluctant retirees – 34%, up from 29% last year – were forced out before they were ready. Also, there was a significant increase in the number of people who ended up working for longer than planned, though that was from a very small base (4% from last year's 2%).

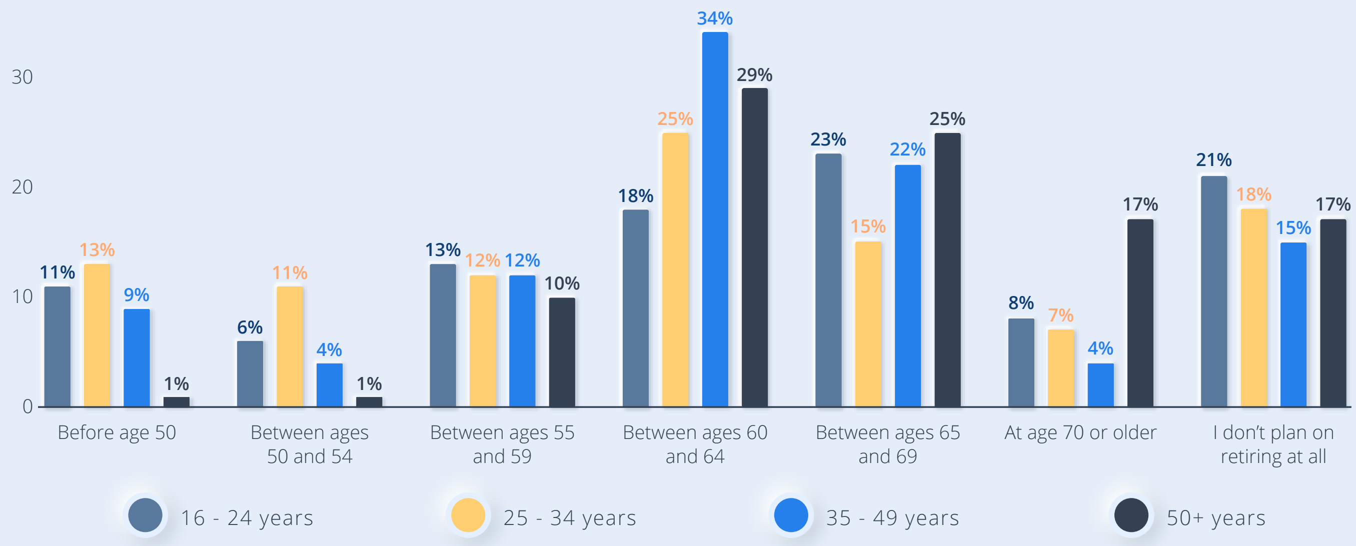
Owing to relatively small percentage of respondents in the survey who have retired (around 3%) the numbers tend to vary from year to year. However, the trend confirms what our population pyramid tells us must happen: the number of workers being forced into retirement sooner than they had hoped is increasing.

This is a double whammy for any retirement plan, as more retirement years must be funded by fewer years of contributions and compound returns. An increasing number of those in formal employment who don't plan to retire will likely find themselves forced to do so.

MAKE YOUR SAVINGS LAST
10X's free downloadable guide for retirees: ***The South African guide to making your money last in retirement.***

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. But it is an issue that must be tackled sooner rather than later, because only a few people will strike it lucky and achieve financial independence with little-to-no foresight, and a consistent long-term savings and investment strategy.

At what age do you plan on retiring?



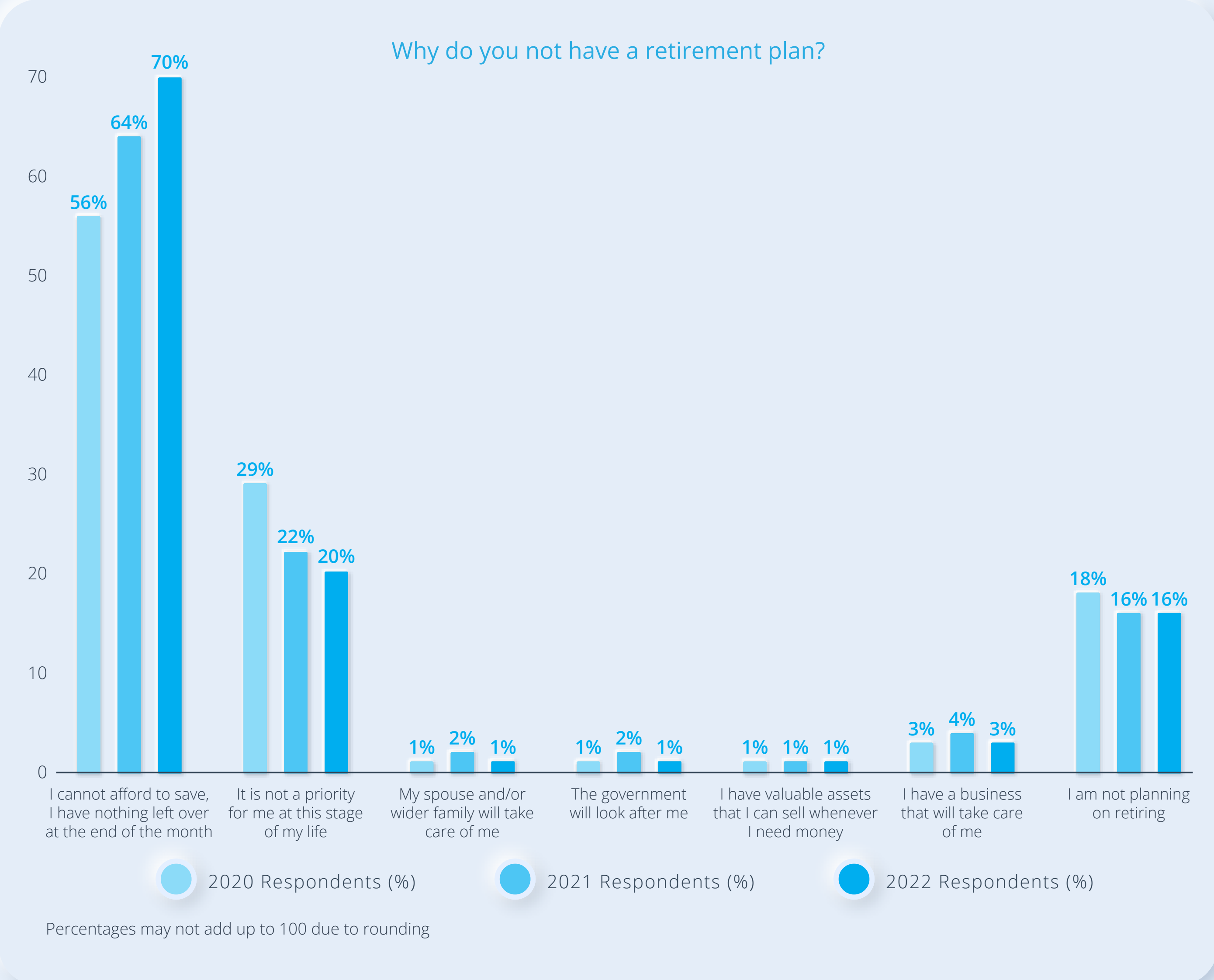
Percentages may not add up to 100 due to rounding

It is striking that whereas some 33% (2021: 35%) of respondents under 35 believe that retiring below age 60 is achievable, only 12% (2021: 5%) of over 50s consider this realistic. In the same vein, whereas among the younger cohort (between ages 25 and 49), on average, only 41% (2021: 46%) expect to work past the age of 64, among those 50 years and older, 59% (2021: 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.

Perhaps the older people felt somewhat buoyed by higher market returns last year, boosting their portfolio by 25% or so. This may bring in an element of recency bias, expecting higher returns to continue. It also underlines how people may be swayed in their thinking and financial self-evaluation based on how they feel, or how the market makes them feel.

Discrepancies between the age cohorts are still quite striking, painting a picture of the optimism of youth versus the experience of old age.

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



The last few, extra tough years have exposed more workers to the uncertainty of employment. At the onset of the pandemic, many people felt a threat to their jobs and saw others lose 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 showed 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, as this report has illustrated over the last few years, for most South Africans, the failure to save is not one of hubris or ignorance, but of economic hardship:

70% of people surveyed (up from 64% last year, and 56% the year before) said they simply cannot afford to save because there is nothing left at the end of the month.

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 and generational tensions.

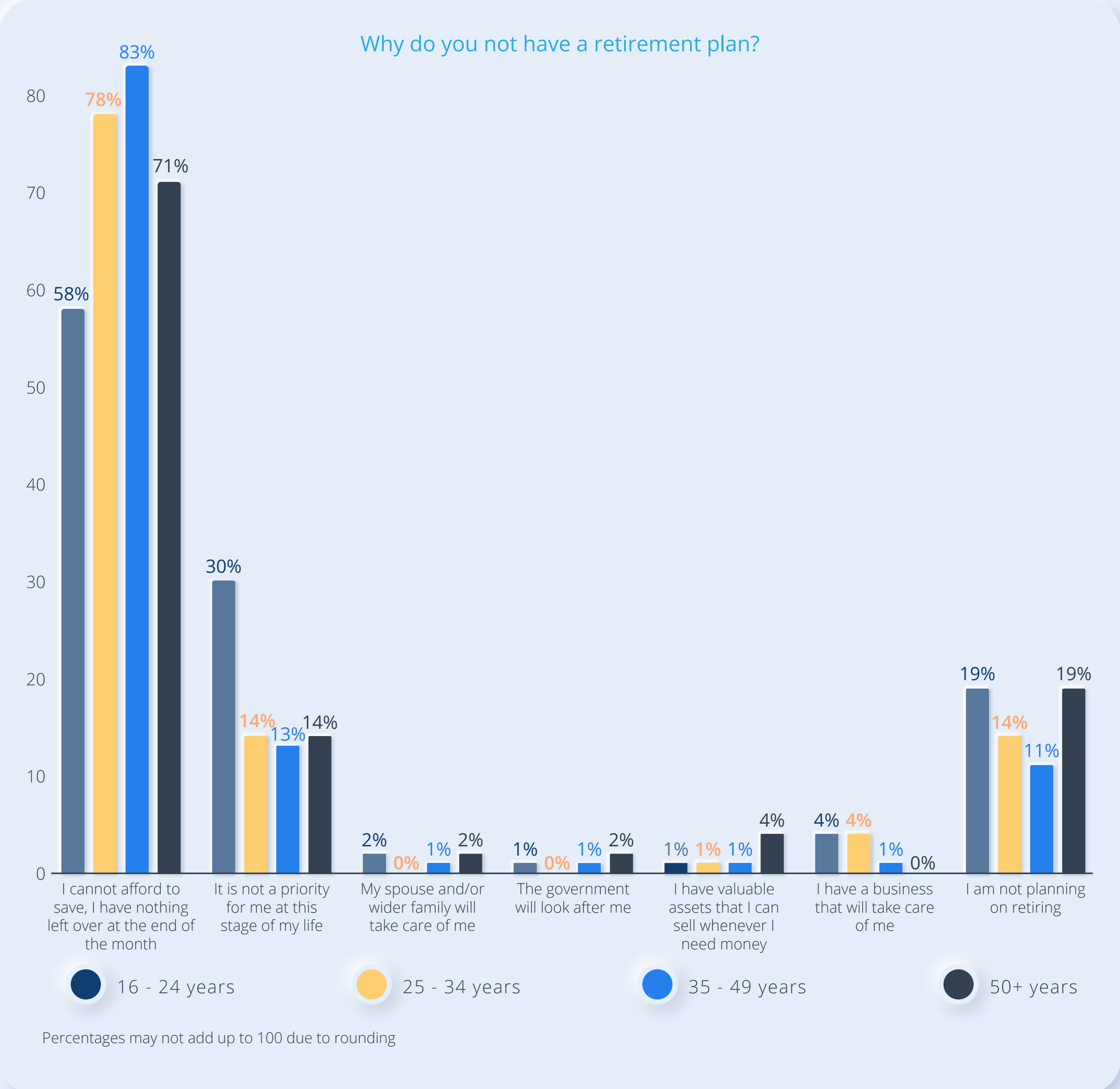
According to Stats SA's Quarterly Labour Force Survey (QLFS) for the second quarter of 2022, the official unemployment rate was 33,9%. Young people (those aged 15-24 years and 25-34 years) recorded the highest unemployment rates of 61.4% and 41.2% respectively.

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:

20% of respondents – down from 22% last year, 29% the year before that and 36% in 2019 – 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, the declining apathy towards retirement saving is welcome.

Hopefully when people find themselves in a position 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.



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

Across all age groups (except 50-plus) the number of people who say they cannot save because there is no money left at the end of the month has increased. In the 50-plus age group the number has declined from 76% to 71%, still high for an age group where many, if not most, will have shed the naivety of youth.

Things are very tough for the 35 and 49-year-olds, who make up 30% of the survey, with more than 4 in 5 of them (83%, up from

79% last year) saying they cannot afford to save. Last year, 4% of them thought they could rely on their business to support them in old age, but that is down to just 1% this year, which tallies with anecdotal evidence of how many smaller businesses shut their doors for good during the pandemic and afterwards.

The tough times have done little to diminish illusions in this group, however, with the percentage indicating that retirement is not a priority at this stage of their life more than doubling (from 6% to 13%) and those not planning to retire increasing from 9% to 11%.

The 16-24 age group showed a significant increase in the number who cannot afford to save, 58%, up from 48% last year, which was already a big increase on the previous year's 40%. It seems that today's tough economic reality is hitting this generation and having the knock-on effect of diminishing illusions: significantly fewer in this cohort don't view retirement saving as a priority this year (30%, down from 37% last year).

GET STARTED
Ideally, the focus during the early years of work should be on setting up a long-term plan and getting a start. Even a small amount invested sensibly in the early years of a working life will grow over the years to be worth significantly more by retirement age.

Tough economic times aside, the data continues to show that many South Africans prioritise their current lifestyle, at great expense to their future selves. Around a quarter 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.

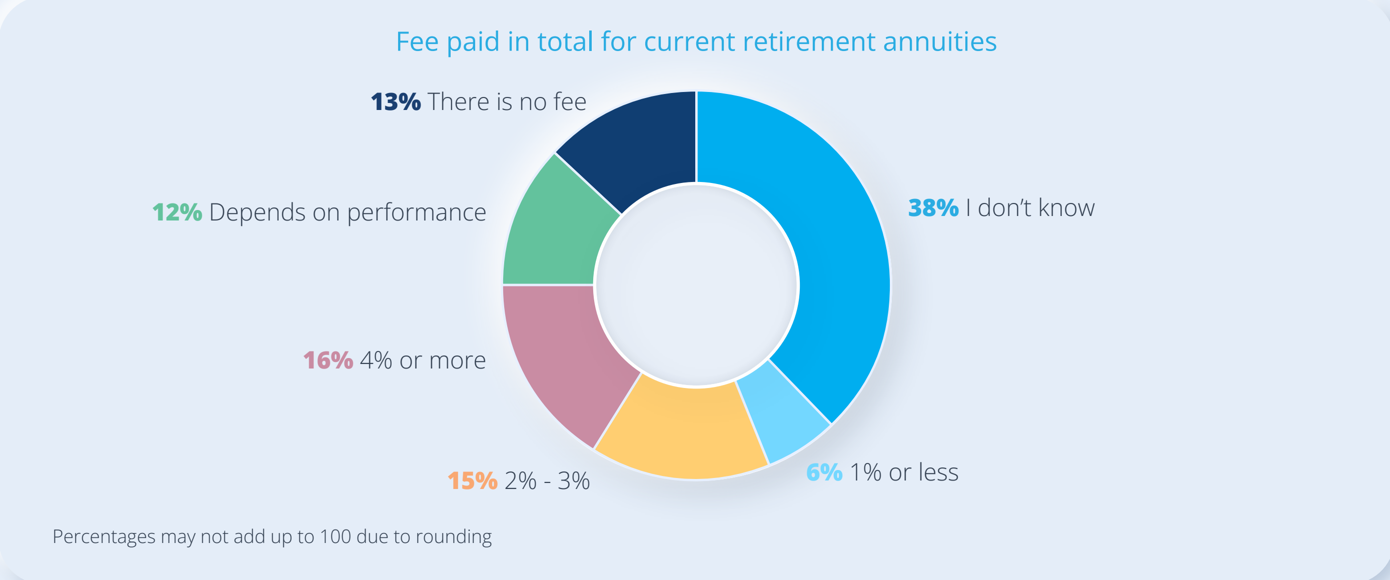
Of those who claim to have a retirement savings plan of some sort, just 7% are confident that they are on course for that seemingly old-fashioned notion of retirement: living off accumulated savings.

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.

In these straitened economic times, when it seems impossible for many people to save, it is even more important than before. It is becoming harder for those who are still working to support family members and friends in need, never mind putting something aside for their own old age.

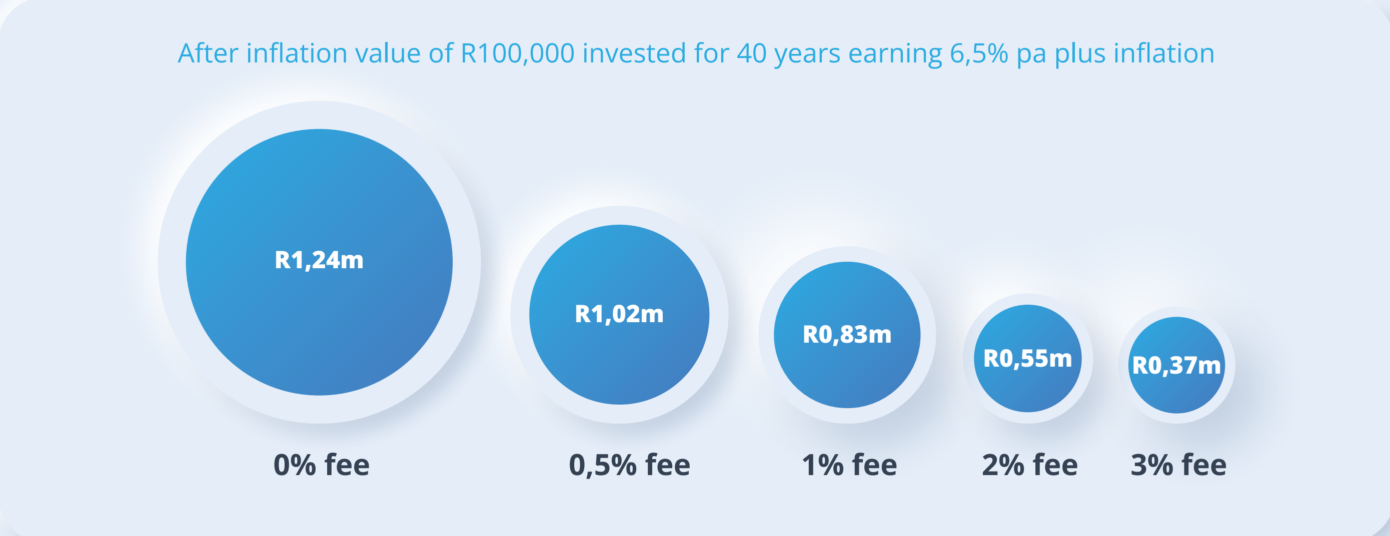
It is in everyone's interests that all South Africans plan how they will support themselves in later years. To do so they must work out what they will need, create a savings plan, and engage with it regularly to stay on track.

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.



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 40% 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 38%, from 41% in 2021 and 49% in 2020, 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 seem to be 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 so-called 'tyranny of compounding costs' can eat into an investment over time.

The fact that almost a third of people say they are paying above 2% pa (with 16% 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: tough economic times make it harder to save for retirement and easier to see why everyone must. In difficult times, the value of proper planning and making every penny count become obvious. Small adjustments to your spending and to the fees you pay for services can amount to significant differences over time.

FIND OUT WHAT YOU ARE PAYING

10X Investments will do a free ***fee analysis and comparison*** on your current retirement savings fund.

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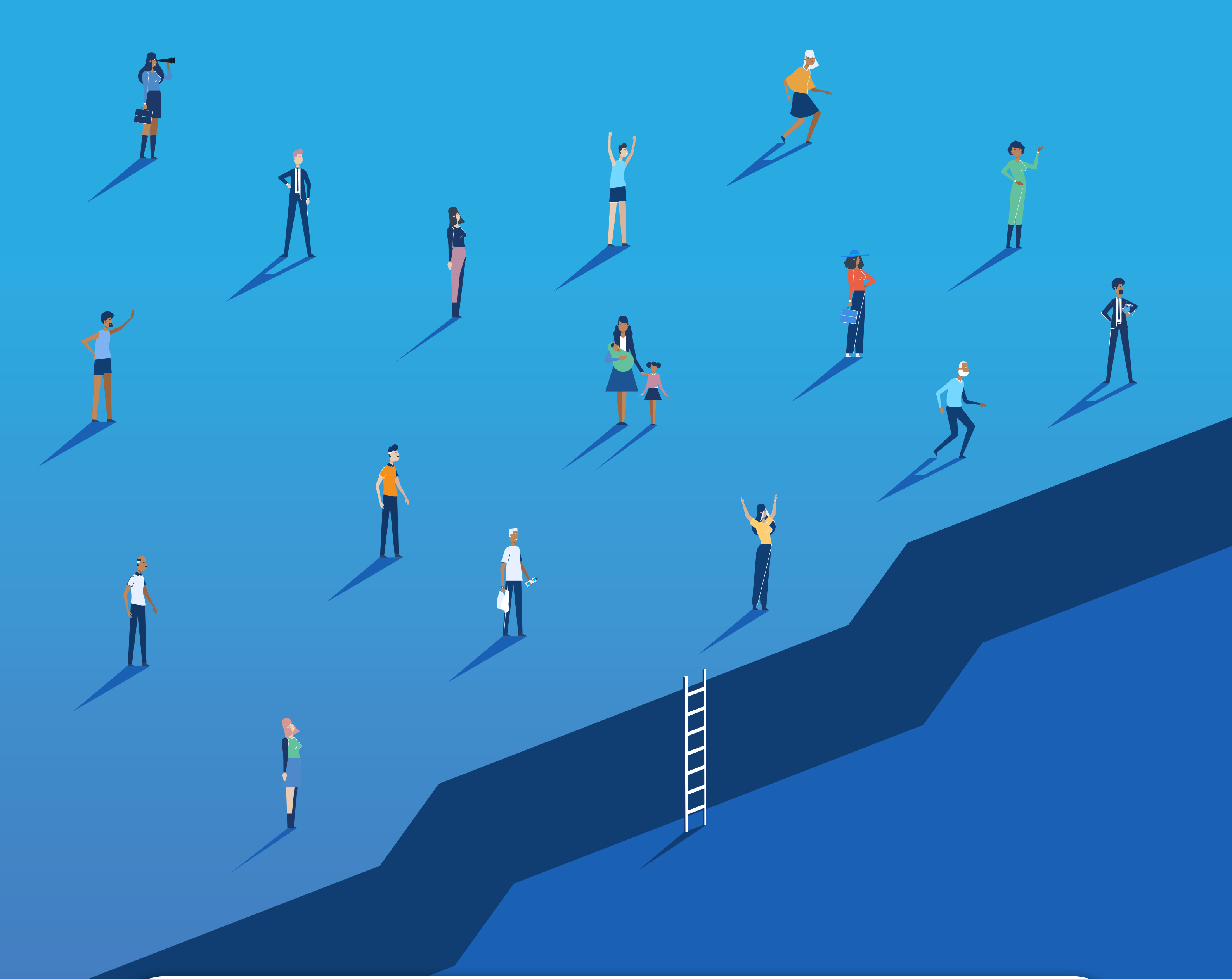

Cape Town Office

14th Floor, The Terraces
34 Bree St
Cape Town
8000
South Africa
+27 (0)21 412 1010

Johannesburg Office

4th Floor, Grindrod Tower
8A Protea Place
Sandton
2196
South Africa
+27 (0)11 459 1866

Email Address: invest@10x.co.za | Website: www.10x.co.za

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