Media release

Sanlam BENCHMARK Survey: Holistic planning needed to ensure good retirement outcomes

Johannesburg, 28 May 2015: Only a quarter of South African retirees are expected to be able to maintain their standard of living in retirement, according to research released today. The two main reasons for this dismal statistic are retirement fund members cashing in on their savings after retrenchment or resignation, and apathy towards making provision for their own retirement.

These are some of the key findings of the 2015 Sanlam BENCHMARK Survey, a comprehensive annual review of South Africa's retirement industry. Now in its 34th year, the BENCHMARK Survey polled over 1000 retirement fund members, pensioner, trustees, employer representatives and principal officers.

Mayuri Reddy, marketing strategist at Sanlam Employee Benefits, says not preserving retirement savings when changing jobs, for example, is the biggest mistake fund members make on their retirement savings journey. "The survey results indicated that many people are not aware of the tax implications of non-preservation (49% of members surveyed), nor do they fully understand the impact on their retirement outcomes (45%)."

Reddy says the number of fund members not engaging with their retirement savings or understanding investment decisions is a matter of "serious concern". Of the 42% of members invested in their fund's default investment portfolio, the majority (70%) did so because they trusted the trustees of the fund to make sound investment choices. But 87% said they had not voted for the trustees, and 85% could not name a fund trustee.

The second most common reason members gave for investing in the default portfolio was to achieve growth, but they were not overly concerned with exactly how they were invested. Furthermore, 72% never come back to reconsider their initial decisions regarding their retirement benefit options.

"The member apathy that is apparent from the reasons given for being invested in the default investment portfolio, together with the fact that few members will revisit their retirement decisions during their working lifetimes, means that trustees are taking on huge responsibility for ensuring that members are appropriately invested at various stages of their lives. As a result, we see many trustees (61%) using life stage strategies as the default option in order to provide younger members with sufficient exposure to growth assets, while ensuring that members closer to retirement are not exposed to excessive risk."

Stand-out findings from the member survey include:

- 77% of members who withdrew from a fund due to retrenchment or resignation took some or all of their retirement benefit in cash. 63% used some of this cash to reduce debt, while 33% also used some of their benefit for daily living expenses
- Only 2 in every 10 members know what their fund's stated target pension is, however 60% of funds have this in place
- Only one third of female members have considered that they may live longer in retirement than their male counterparts, and only 15% have considered how earning a lower salary than their male counterparts may effect their retirement savings adequacy
- 56% of married couples or couples living together plan for retirement together, while 31% plan

separately but discuss it together
- On average, members are planning to retire around age 58, despite the average retirement age of fund's being 61
- 36% of members (up from 25% in 2014 and 21% in 2013) have no other personal savings aside from their retirement savings
- 85% of members would not opt out of compulsory savings through their retirement fund if given the option, and similarly 89% would not reduce their current contribution rates if given the option, indicating an appreciation of this benefit

Key take-outs from the pensioner study include:
- Of the pensioners who had withdrawn from a retirement fund through resignation or retrenchment from their previous employer, 74% took some or all of their retirement benefit in cash
- 57% of pensioners who did not preserve their retirement benefits at withdrawal used it to reduce debt, while 43% of pensioners are still paying off debt in retirement
- 54% of pensioners indicated that they regretted the decision to withdraw, and 41% said they could have considered an alternative option
- 66% of pensioners still have either adult or child dependents who rely on them financially
- On average, pensioners first received financial advice on retirement 10.5 years before retirement
- Only 24% were advised to consider converting their risk benefits from a group policy to an individual life policy at retirement (in order to benefit from possible preferential rates)
- 44% sought retirement advice from their financial advisor or broker, while 41% turned to their employer or HR officer for advice
- 62% experienced a reduction in income at the point of retirement, and only 43% believe they have sufficient capital to last for the rest of their lives

One of the key messages that emerged from this year's results is the crucial importance of a holistic approach to the financial needs of each individual retirement fund member. The non-preservation of retirement funds is having a huge impact on people's retirement outcomes, but we can't just ignore people's short-term financial needs. The recently introduced tax-free savings accounts could go a long way towards creating awareness that there are other ways to address these needs without dipping into retirement savings.

"Members must realise that dipping into their retirement savings - which they are effectively doing by not preserving - is like borrowing from your future self, at a very high interest rate and with no intention of ever paying it back. We need to start being more self-disciplined with our finances in order to have a self-sufficient and enjoyable retirement," Reddy concludes.

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About Sanlam Employee Benefits (SEB)
Part of the Sanlam Group, SEB specialises in the provision of risk, investment and administration services to institutions and retirement funds. Focused on meeting the unique needs of its diverse clients, SEB

assists companies to create and deliver customised employee benefits solutions, including the collection of premiums and communication to fund members. For more information, visit www.sanlam.co.za.