How healthy is the retirement market?

26 June 2015

Jaco-Chris Koorts & Jayesh Kassen, Glacier by Sanlam

The insights provided by the results of this year's Sanlam Benchmark Survey once again present the market with a wealth of valuable information about everything relating to retirement. Previous surveys' results also allow us the opportunity to recognise any trends and shifts in the behaviour of individual members and pensioners.

Focusing on the pension space, a core group of 252 participants took part in this year's survey. For the second year running, a booster sample of 50 pensioners, representing the affluent sector of the market, was also interviewed. Consistent with last year's approach, affluent retired individuals are defined as having income in retirement in excess of R25 000 per month. This not only allows us to substantiate our results from last year, but also allows us to identify any trends starting to develop among affluent retirees.

Plan and save from an earlier age

Drawing upon the luxury of hindsight, the single biggest piece of financial advice that retired individuals would give to someone starting out in their career was once again to start saving for retirement from an earlier age. However, there was a greater emphasis placed on planning for retirement from an earlier age and increasing your retirement contributions on a regular basis when comparing the results with that of last year's benchmark survey.

Tax implications of withdrawals

With the emphasis being placed on the preservation of retirement savings by National Treasury through their suggested retirement reforms, a few questions relating to the withdrawal of retirement savings were added to this year's questionnaire for the first time.

The percentage of pensioners who withdrew from their retirement fund through either resignation or retrenchment increased from 21% in 2014 to 25% in 2015 amongst the core group of pensioners. From the pensioners that withdrew their savings, for the first time we see that a startling 63% did not realise the level of tax that they would have to pay on the withdrawal amount. On top of this, 61% did not realise the effect that the withdrawal would have on their situation at retirement, and 54% indicated that they regretted the decision to withdraw a cash benefit from their retirement savings. Turning to what the cash withdrawal was used for, there is a clear shift away from paying off mortgages and spending money on home improvements, to settling short-term debt and starting their own business. This is indicative of the high levels of short-term debt that South Africans have.

In contrast to this, the percentage of affluent pensioners who withdrew from their retirement fund through either resignation or retrenchment is notably lower at 20%, although this has increased from 12% in 2014. In contrast to what we saw from the core group of pensioners, 75% of the affluent pensioners were aware of the tax implications of their withdrawal and 75% of the affluent pensioners realised what the effect of the withdrawal would be on their situation at retirement. However, 50% of these pensioners still regretted their decision to withdraw from their retirement funds. There was also an increase in the proportion of affluent pensioners using the cash benefit to reduce short-term debt and start their own business.

Positive trends

Pensioners were asked two specific questions regarding their financial status at retirement:

i) What sources of income do you have in retirement apart from your pension/retirement annuity?
ii) Do you believe that you have saved enough capital to last for the rest of your life?

Both questions addressed the state of a pensioner's security in retirement. When asked the question about income sources, a greater proportion of affluent pensioners admitted to having other income from savings, investments and property, whereas the core pensioners group listed other sources of income as primarily from savings and investments.

In response to the second question above, a positive trend is seen amongst the core group of pensioners when asked whether they believe that they have saved enough capital to last them for the rest of their life, with 42.5% believing that they have. This has increased from 31.6% in 2014 and 30.3% in 2013. 74% Of affluent pensioners believe that they have saved enough capital to last their remaining lifetime, which has also increased from 66% in 2014.

The good news continues with the percentage of pensioners indicating that they have a shortfall between their retirement income and monthly living expenses decreasing from 59.2% in 2014 to 44.8% in 2015. Amongst affluent pensioners the percentage indicating a shortfall dropped from 26% in 2014 to 4% in 2015. To deal with any shortfall that they may have, the core group of pensioners opted mainly to cut back on non-essential expenses and dig into other savings, with a smaller percentage indicating that they would ask friends or relatives for financial assistance or work to supplement their income. The proportion of affluent pensioners who have a shortfall was too small to draw any credible conclusions in this regard.

The average retirement age for the core group of pensioners remained fairly stable at 60 years of age, whereas the affluent pensioners' average retirement age decreased to 58 in 2015 compared to 61 in 2014. Affluent pensioners also start saving earlier for retirement - at 23.6 years compared to the core group of pensioners who started savings for retirement at 26.9 years of age.

Financial advice critical

Moving to the topic of financial advice, the proportion of the core group of pensioners receiving financial advice on their retirement planning prior to their retirement age increased considerably from 57.6% in 2014 to 67.1% in 2015. Comparing this to affluent pensioners, 84% of affluent pensioners received financial advice prior to retirement. They received this financial advice much earlier, with the financial advice given 12.3 years prior to retirement. Looking at who provided the financial advice, the bulk of the financial advice to the core group of pensioners was provided by their company's HR officer and their personal financial adviser. In contrast to this, affluent pensioners predominantly received financial advice from their personal financial adviser or an adviser from a life insurance company.

It is notable that 42% of affluent pensioners were aware of the retirement benefits that they had in place more than five years before retirement, whereas only 25% of the core pensioner group fulfilled this criteria. It is worrying that 22% of pensioners in the core group became aware of their retirement benefits at retirement, compared to 8% of the affluent respondents.

During this year's survey, pensioners were asked for the first time if they were advised to consider converting their group risk benefits to individual life policies. From the core group of pensioners, 24% indicated that they were advised to do so, while 48% of affluent pensioners indicated that they received advice in this regard.

Pensioners who opt for a lump sum at retirement are encouraged to stay within the tax-free limit and the lump sum should ideally be used to repay debt. Based on the survey results, the proportion of general pensioners spending the lump sum on living expenses is still relatively high at 34%. However, the percentage of pensioners using the lump sum to reduce short-term debt increased considerably from 28.4% in 2014 to 34.9% in 2015. If we compare this to the findings for affluent pensioners, fewer pensioners invested this lump sum, and the use of the lump sum to reduce short-term debt increased from 16% in 2014 to 46% in 2015, and the use of the lump sum to start their own business increased from nothing in 2014 to 22% in 2015. This change in priority to reduce short-term debt could be seen in a positive light even though the results seem staggering, with the percentage of pensioners in the core group who indicated that they had depleted their lump sum increasing from 38.4% in 2014 to 46.8% in 2015. This trend is also seen amongst affluent pensioners, with 44% of affluent pensioners indicating that they have depleted the lump sum compared to 22% in 2014.

Regarding the type of post-retirement annuity being purchased, the shift away from level guaranteed life annuities continues, with 13.9% of pensioners from the core group indicating that they purchased these annuities compared to 20.4% in 2014.

Among the core group of pensioners, the percentage that indicated that they want the trustees to provide them with a default or recommended annuity, providing them the option to opt out, increased from 13% in 2014 to 28% in 2015. In contrast, 66% of affluent pensioners indicated that they want complete freedom of choice, with no restrictions from trustees when it comes to purchasing a post-retirement annuity.

Looking forward

The pensioner benchmark survey of 2015, as a barometer for the financial health of the retirement market, shows that the hard work done to increase employees' awareness of retirement has started to pay dividends. However, there are still a lot of danger signs that we, as an industry, should continue to look out for and address, in order to alleviate the financial pressure on retirees. The findings of the 2015 Pensioner Benchmark survey will once again go a long way in providing the information necessary to do so.