

ALEXANDER FORBES PRESS RELEASE

MEMBERS HAVE SHORTFALLS OF OVER 8 TIMES THEIR ANNUAL SALARY AT RETIREMENT

South Africans need to contribute 17% of their income for 40 years to retire comfortably on 75% of their final pensionable salary – a 75% replacement ratio – according to the 2019 Alexander Forbes Member Watch.

Simply put, they need over 12 times their annual pensionable salary to achieve a replacement ratio of 75% at retirement, but at age 65 the actual average fund credit is only 3.7. This means that, on average, most members have a shortfall at retirement of over 8 times their annual pensionable salary.

With over a million members, the Alexander Forbes Member Watch™ is the biggest membership and employer groupings data sample of all retirement fund surveys available in South Africa. It outlines and analyses trends in member behaviour.

Only 6 in every 100 members can retire on more than 75% of their pensionable salary

According to Member Watch, only 6% of the total retirement fund membership can expect a replacement ratio above 75% of their pensionable salary.

“A comfortable retirement is possible if employees contribute sufficiently from a young age and do not cash in when changing jobs,” said Vickie Lange, head of best practice at Alexander Forbes.

Don't cash in retirement savings between jobs

Low preservation rates are one of the biggest reasons for replacement ratios being lower than the target. “Regulations have been put in place to assist with low preservation rates. Default preservation rules allow retirement savings to be made ‘paid up’ in the fund when a member leaves their employer and doesn't make a payment election so that their retirement savings are kept invested.”

The number of members preserving has changed insignificantly from 8.7% in 2018 to 8.8% in 2019. The proportion of assets preserved has also changed insignificantly from 48.8% in 2018 to 48.4% in 2019.

How to double replacement ratios

The 2019 Member Watch also demonstrated that increasing one's retirement age from 55 to 65 can almost double a replacement ratio due to the compounding effect on interest.

Preservation rates increase with age. “This may be due to members being more aware and focused on their retirement savings and understanding the importance of preserving their benefits.”

Preservation rates have decreased on average by 0.36% for members between the ages of 18 and 30 years when compared to the previous analysis, while members who are 65 years and older have increased by 1.82%.

Half retired on less than 20% of their final pensionable salary

Approximately 49.7% of retirees in the analysis achieved a replacement ratio of less than 20%. This is slightly lower than the findings of the 2018 analysis, where 51.7% achieved a replacement ratio of less than 20%. There is a significant increase of 2.8% of retirees, who achieved a replacement ratio above 80% as compared to the 2018 analysis.

Why are the outcomes so low?

Low replacement ratios may be due to:

- low contribution rates to retirement funds
- members cashing in their retirement savings between jobs
- the increased cost of buying a pension at retirement because people live longer – longevity – and real yields are reducing
- the impact of the recession on retirement savings

Note that this analysis was based on 2019 retirement fund data before the Covid-19 implications.

“The results highlight how important it is for members to have access to communication, retirement benefit counselling and advice to make informed decisions over their lifetime to improve their long-term financial well-being. This has become even more important following the implications of Covid-19 on retirement fund members,” concludes Lange.

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