

Big gap between expectations and reality – retirement survey

So you think you are saving enough for your retirement. According to a recent survey by Old Mutual, you may well be living in a fool's paradise – retirement fund representatives believe only 26 percent of contributing members retire with sufficient benefits. On the other hand, you may be expecting your children or the government to look after you. **Laura du Preez reports**

Retirement fund members and non-members may be overconfident about their financial readiness or provision for retirement, a survey has revealed.

The Old Mutual Retirement Funds survey, which was released this week, shows that, on a scale of one to 10, the average level of confidence among both working people who belong to a retirement fund and those who don't is 5.6, with retirement fund members showing a higher level of confidence (6.3) than non-members (4.8).

But representatives of the 96 retirement funds who participated in the survey say they believe that only 26 percent of members retire with sufficient benefits.

The survey consisted of interviews with representatives of 57 company pension or provident funds, eight union funds, 35 employers that participate in umbrella funds, six preservation funds, 17 intermediaries, and seven people in the media and in regulatory bodies.

In addition, 1 000 retirement fund members and 200 pensioners were interviewed.

ADEQUACY CHECK

Less than half (46 percent) of the fund representatives, advisers and other industry representatives interviewed say their funds measure how adequate the fund benefits are for members.

Hugh Hacking, the umbrella fund product manager at Old Mutual, says this could be a key reason so many fund members do not have sufficient retirement savings. Hacking says that if you find out at retirement age that you do not have enough, the only thing you can do is delay your retirement.

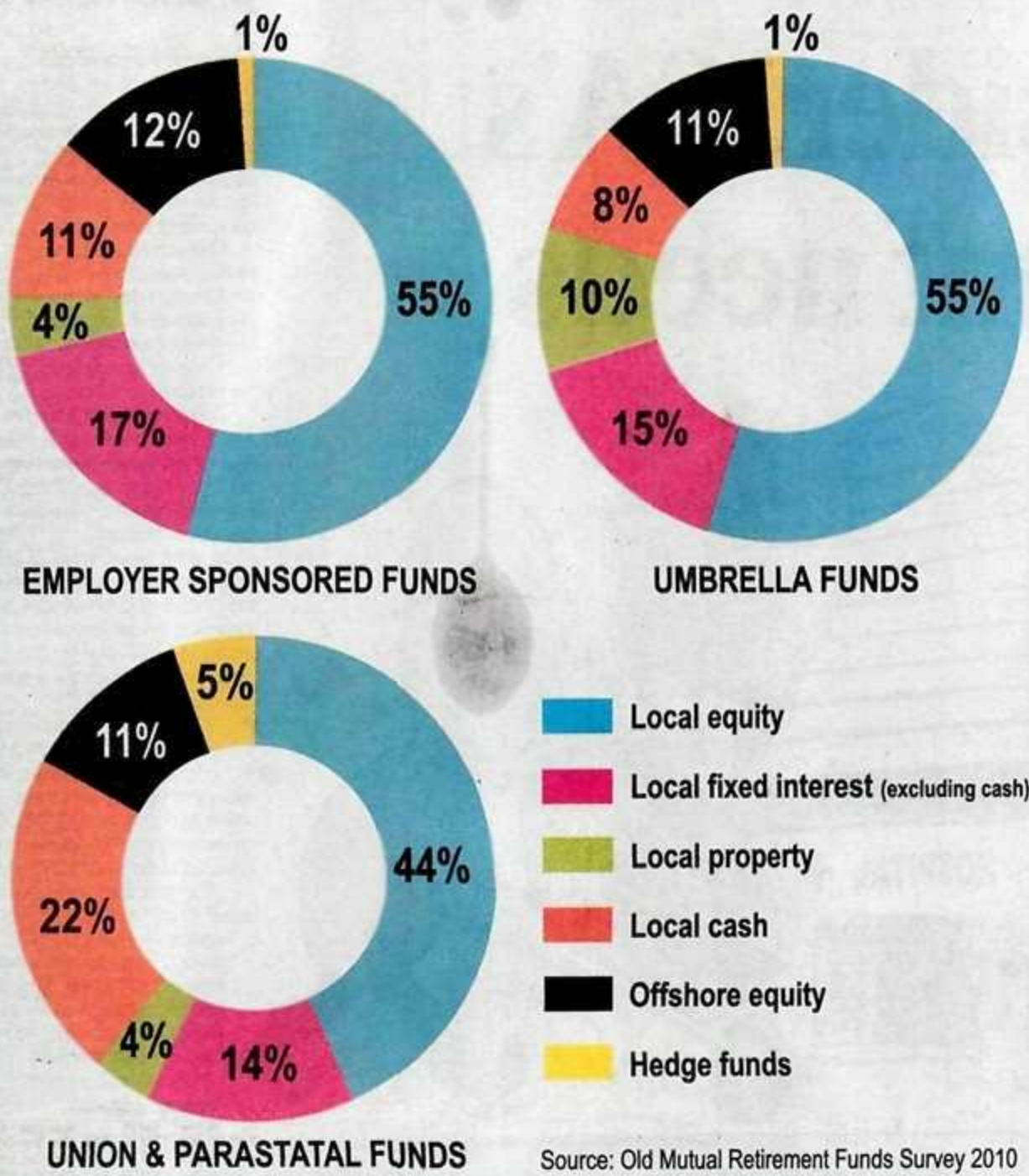
The survey found that company funds are more likely than umbrella or union funds to measure the adequacy of the benefits they provide.

More than two-thirds of preservation funds and brokers measure the adequacy of the benefits provided by their funds or the funds they advise.

The survey also reveals that many retirement fund members are not contributing enough to their funds.

Of the members surveyed, only 65 percent know what percentage of salary they contribute to their retirement fund. Among them,

How funds typically invest



The Old Mutual survey also looked at fund portfolios. Most company-sponsored, umbrella and union funds follow a balanced investment approach, but the union and parastatal funds tend to invest more conservatively, with a higher exposure to fixed interest and cash investments. This is likely to lead to lower but less volatile returns.

eight percent say they contribute more than 20 percent of their salaries to a retirement fund, and nine percent contribute 16 to 20 percent of their salaries.

Craig Aitchison, the managing director of Old Mutual Actuaries

and Consultants, says contributing 15 percent over 40 years, and preserving those savings throughout that period, should ensure you have enough on which to retire.

Fifty-three percent of fund members surveyed contribute only

between six and 10 percent of their salaries. Fourteen percent contribute five percent or less, and these people will probably not have enough savings on which to retire, according to Old Mutual.

The survey also found that

90 percent of members have never made additional contributions to their fund.

Among the 1 051 working individuals who participated in the survey, 62 percent feel their contributions are about right to prepare them for retirement.

But many have some doubts, with 77 percent of fund members and 75 percent of non-members wondering if they have saved enough, and 57 percent of members and 68 percent of non-members fearing they will not cope financially in retirement.

Most people surveyed say they plan to work for as long as they can after retirement (58 percent of fund members and 70 percent of non-members).

More than a quarter of them say they expect their children to look after them when they retire, and an even higher proportion say they expect the government to look after them when they retire. This is despite the fact that all the survey participants earn a lot more than the government's current old-age pension of R1 080 a month.

Among those who do not contribute to pension or provident funds, about half (48 percent) say they plan to survive on cash savings after retirement.

Among the 1 051 working people surveyed, 91 fund members had changed employers and left funds during the past 10 years. More than half of these (52 percent) had withdrawn the cash, rather than preserving it in another fund.

GOVERNMENT REFORMS

Fund and industry representatives have mixed feelings about the government's proposed retirement reforms through the National Social Security System (NSSS), according to the survey.

Although they are strongly in favour of the plan to introduce the compulsory preservation retirement savings in the NSSS, most retirement fund roleplayers (71 percent) believe that members should be able to opt out of the NSSS if they want to contribute to alternative savings vehicles.

Most are also in favour of funds saved in the NSSS being paid out on retirement as an annuity or pension rather than in a lump sum, but only if members can access a portion of their funds for an emergency.

Pensioners struggle financially

Old Mutual's survey of 200 pensioners reveals that they are not managing on their pensions, and for many their income is declining in real (after-inflation) terms as the years progress.

The survey found:

- ◆ The average period for which the pensioners contributed to a pension or provident fund was 27-and-a-half years;
- ◆ At retirement, 53 percent of the pensioners say they experienced a drop in their standard of living, and for a quarter of those the drop was substantial;

- ◆ In the years after retirement, 75 percent of the pensioners say they had a drop in their standard of living;

- ◆ Only 17 percent of the pensioners surveyed feel their pensions keep up with inflation;

- ◆ On average, pensioners find that their pensions meet 77 percent of their retirement needs; and

- ◆ Of the pensioners surveyed, 23 percent receive financial assistance from their children or other family members, and this amounts, on average, to a quarter of their income.

Market volatility a big concern

Other key findings of the Old Mutual Retirement Funds Survey are:

- ◆ Two-thirds of the retirement fund and industry representatives interviewed indicated that they have changed their fund's investment strategy or will change their fund's investment strategy in the near future in response to the recent volatility in equity markets. They say that market volatility is a primary concern and it is driving changes in their investment strategy.

They plan to change their strategies by making use of more investment options, using different asset or fund managers, preferring lower-risk investments, moving away from totally guaranteed funds or moving to umbrella funds, Old Mutual says.

- ◆ Many fund and industry

representatives indicated that they use investment strategies that offer some kind of protection against volatility, with smoothed bonus products, absolute return funds and diversification cited as the main ways in which they do this. The use of smoothed bonus products is particularly high among the trade union funds represented in the survey.

- ◆ In 2009, more company retirement funds introduced some level of investment choice for their members, and almost half of the funds represented in the survey now offer investment choice. Despite the increasing prevalence of member choice, 68 percent of members in all types of funds still choose the default option for their retirement savings, the survey found.