

MACROSOLUTIONS

INVEST WITH PERSPECTIVE



SAVINGS

A MACRO ECONOMIC VIEW

July 2017

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Old Mutual Investment Group
Strategist

LOOKING BACK AT MY PREVIOUS MESSAGES AT THIS ANNUAL EVENT

- ❖ People who can save, save way too little
 - They do not understand how large their future financial liabilities are
 - They, wrongly, assume they 'will be OK' at retirement

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 - Too fixated with ST market volatility: this leads to poor *long term* investment decisions (MM funds!)
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 - Slow economic/employment growth is causing youth dependency ratios to rise
 - Longevity is pressuring dependency ratios from the 'other' side too
 - Govt's constrained fiscal situation will cause greater erosion of save-able income through taxes

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- ❖ Be clever, be safe
 - Start early, have a goal, have a plan, *stick to it*

WHAT HAVE I BECOME EVEN MORE CONVINCED OF OVER THE PAST YEAR?

- ❖ People *still* save too little
 - Realisation of the need to save more *is still limited*: gross savings only 3% of income
 - *Life-stage* still dominates spending decisions; a *life-span* orientation still a strange concept to most
 - But at least many are running down excessive debt

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 - *Govt is indeed taking more in tax , a lot more, and it will rise further*

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- ❖ Many people may have to take 2nd jobs or work much longer
 - *Already happening and will get further momentum*

PERSONAL FINANCIAL MANAGEMENT HAS TO CATER FOR 'THE CLIFF'

Working life income/spending

Retirement income/spending

LIFE-STAGE PRINCIPLE IN PERSONAL FINANCIAL MANAGEMENT

Working life income/spending



LIFE-STAGE PRINCIPLE IN PERSONAL FINANCIAL MANAGEMENT

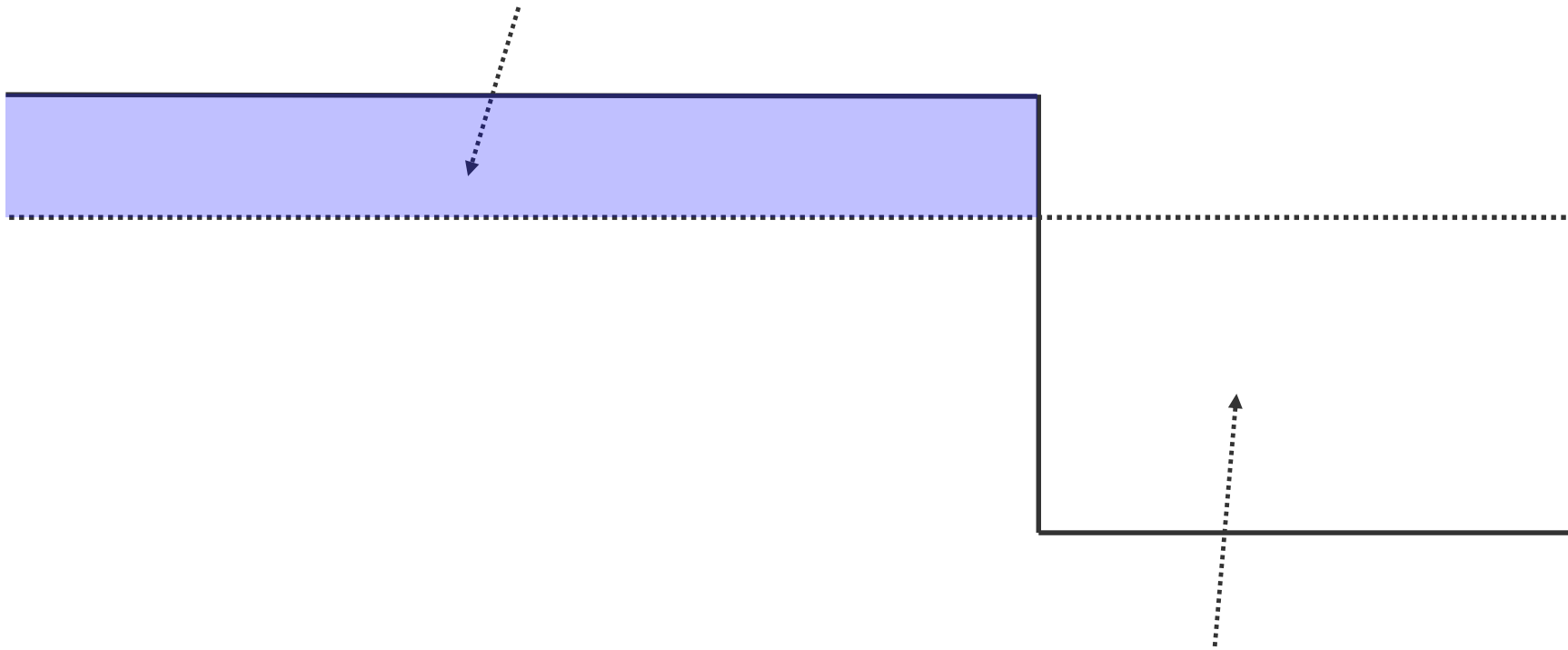
Working life income/spending

Retirement income/spending



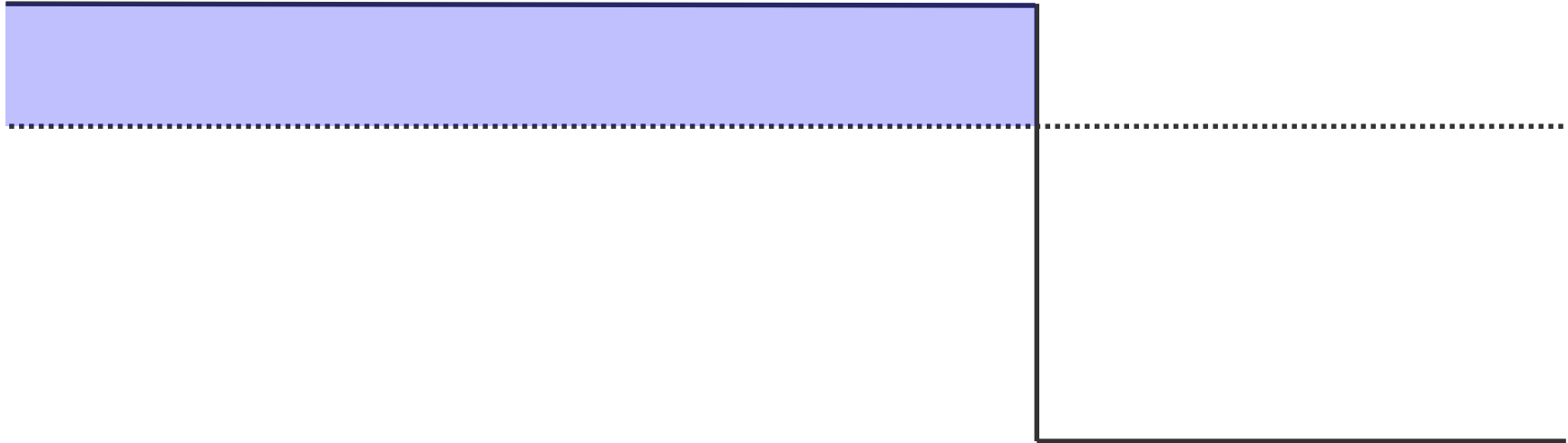
LIFE-TIME PRINCIPLE IN PERSONAL FINANCIAL MANAGEMENT

Forego some spending here...

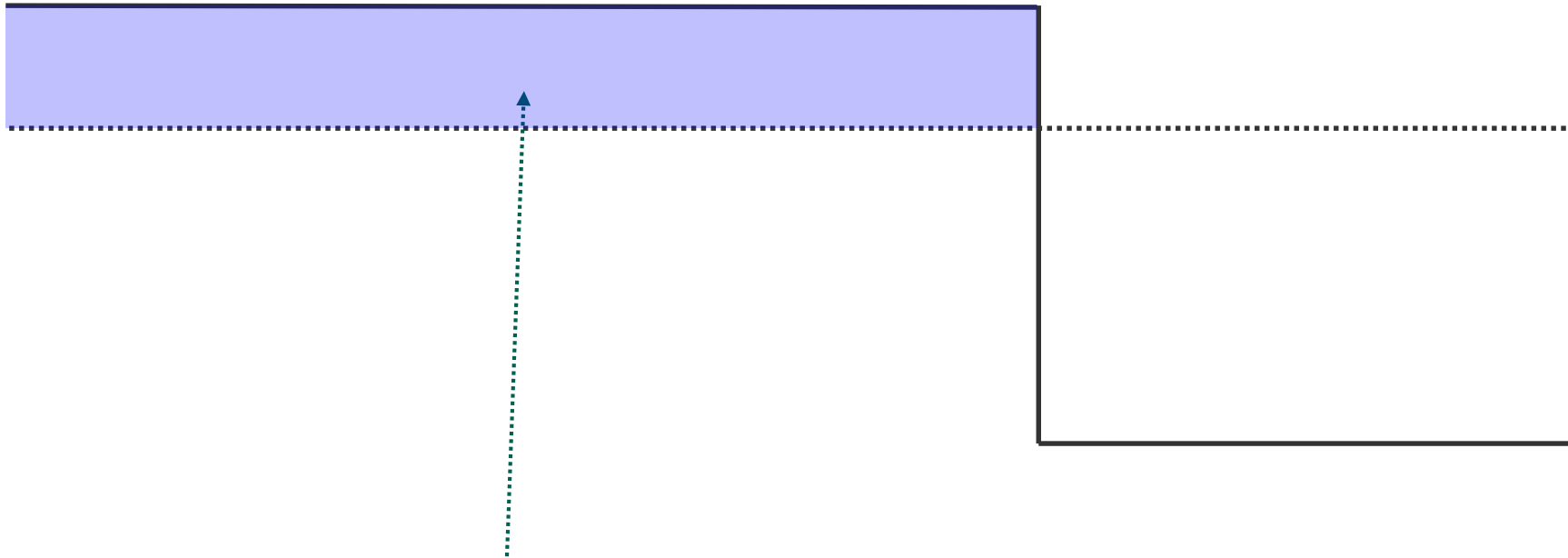


To have more here....

THERE ARE TWO PROBLEMS, THOUGH...

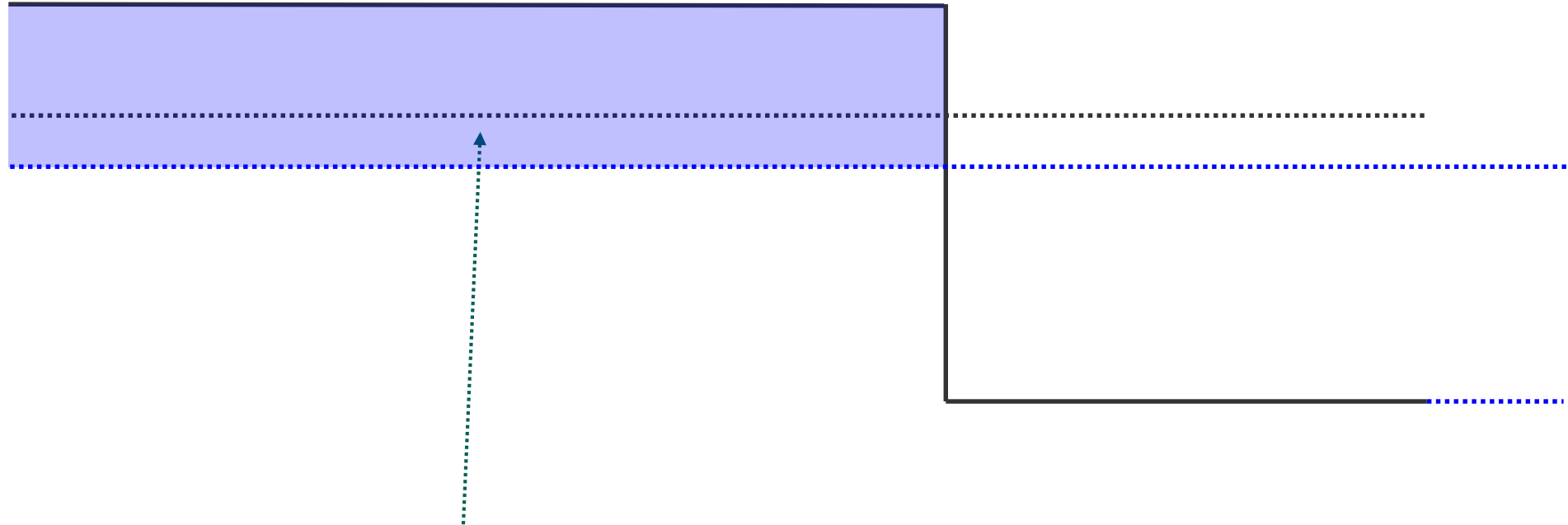


FIRST...



This is a conscious decision and for most people very hard to make, *because the pay-off is simply too distant or they simply do not 'see the cliff'*

SECOND...

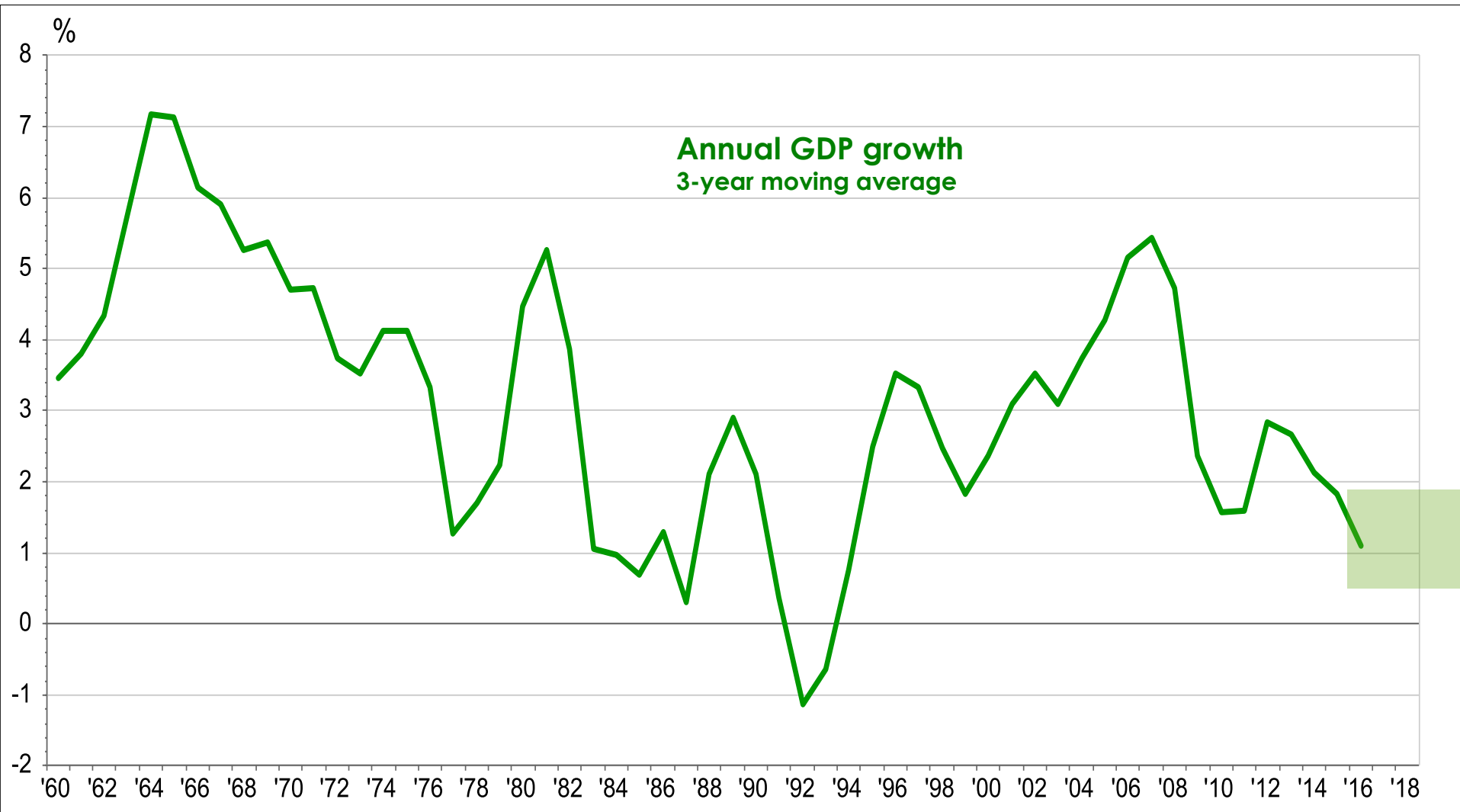


Longevity, low investment returns and a rising tax burden mean that the part that needs to be foregone (saved) during working years is (far) higher than we even now may think

THE ECONOMY AND TAXES ARE SQUEEZING PEOPLE

SA'S GROWTH PERFORMANCE IS AWFUL AND UNLIKELY TO IMPROVE MUCH

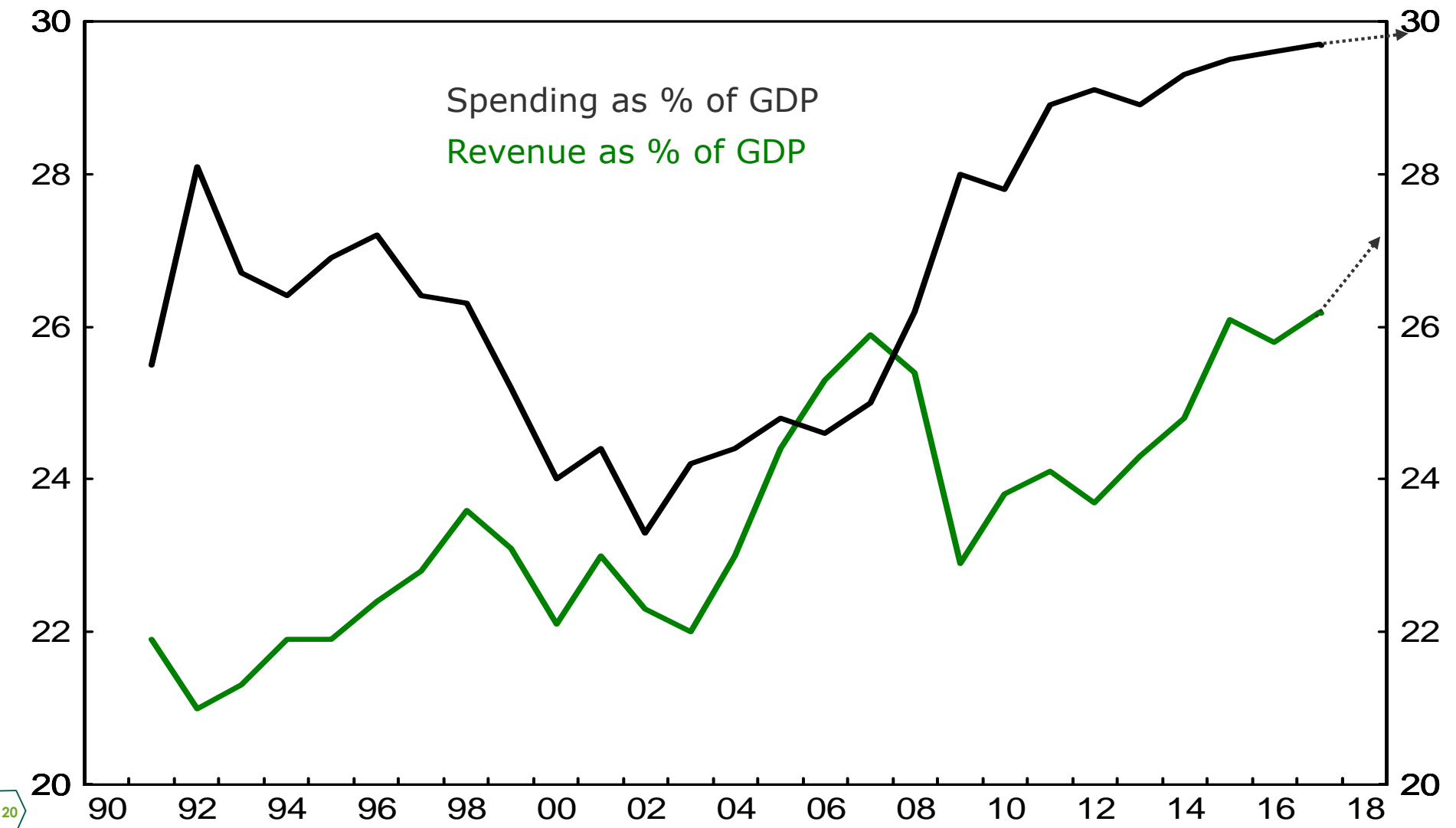
IT IMPLIES LITTLE JOB CREATION AND RISING DEPENDENCY RATIOS



19 | Source: Factset

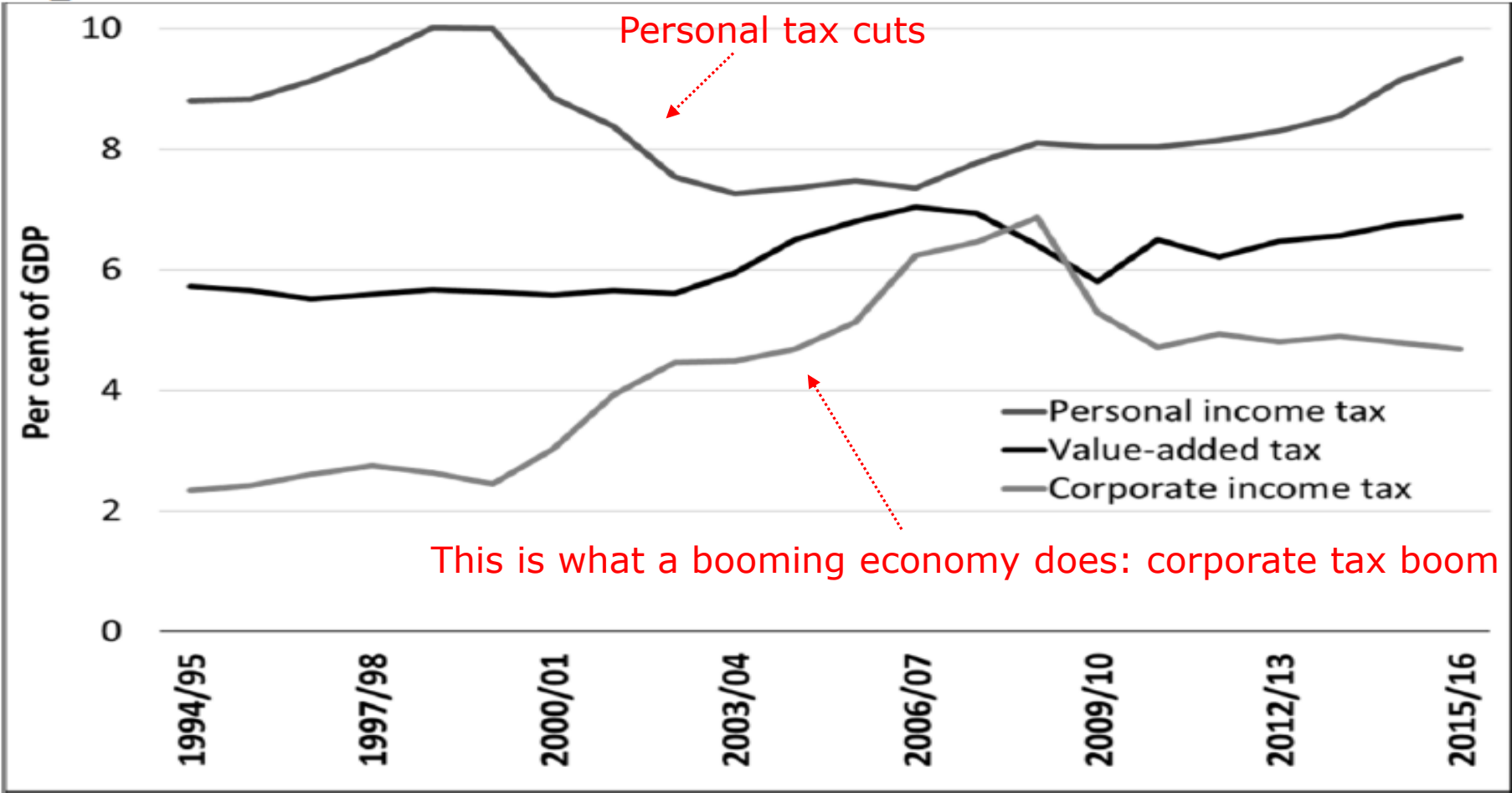
HERE'S THE REAL PROBLEM WITH SA'S FISCAL SITUATION

SPENDING IS HARD TO CONTROL, SO THE PRESSURE INCREASINGLY FALLS ON RAISING TAXES, BUT THE WEAK ECONOMY IS NOT HELPING AND GOVT PLANS NEW INITIATIVES, LIKE THE NHI



BOOMING ECONOMY = BOOMING CORPORATE TAXES AND PERSONAL TAX CUTS

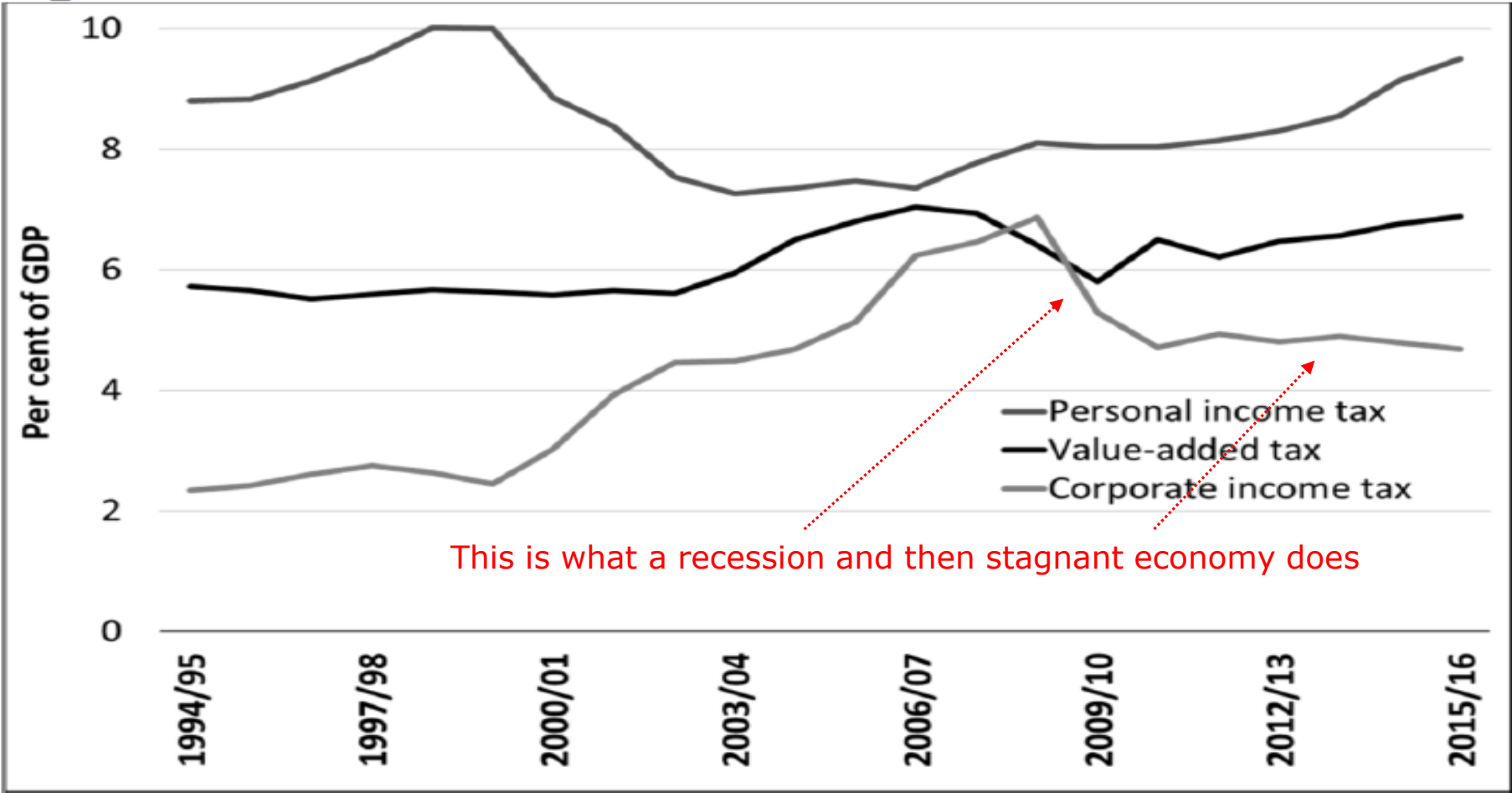
Figure 4.1 Main sources of tax revenue



Source: National Treasury

STAGNANT ECONOMY = FALLING CORPORATE TAXES

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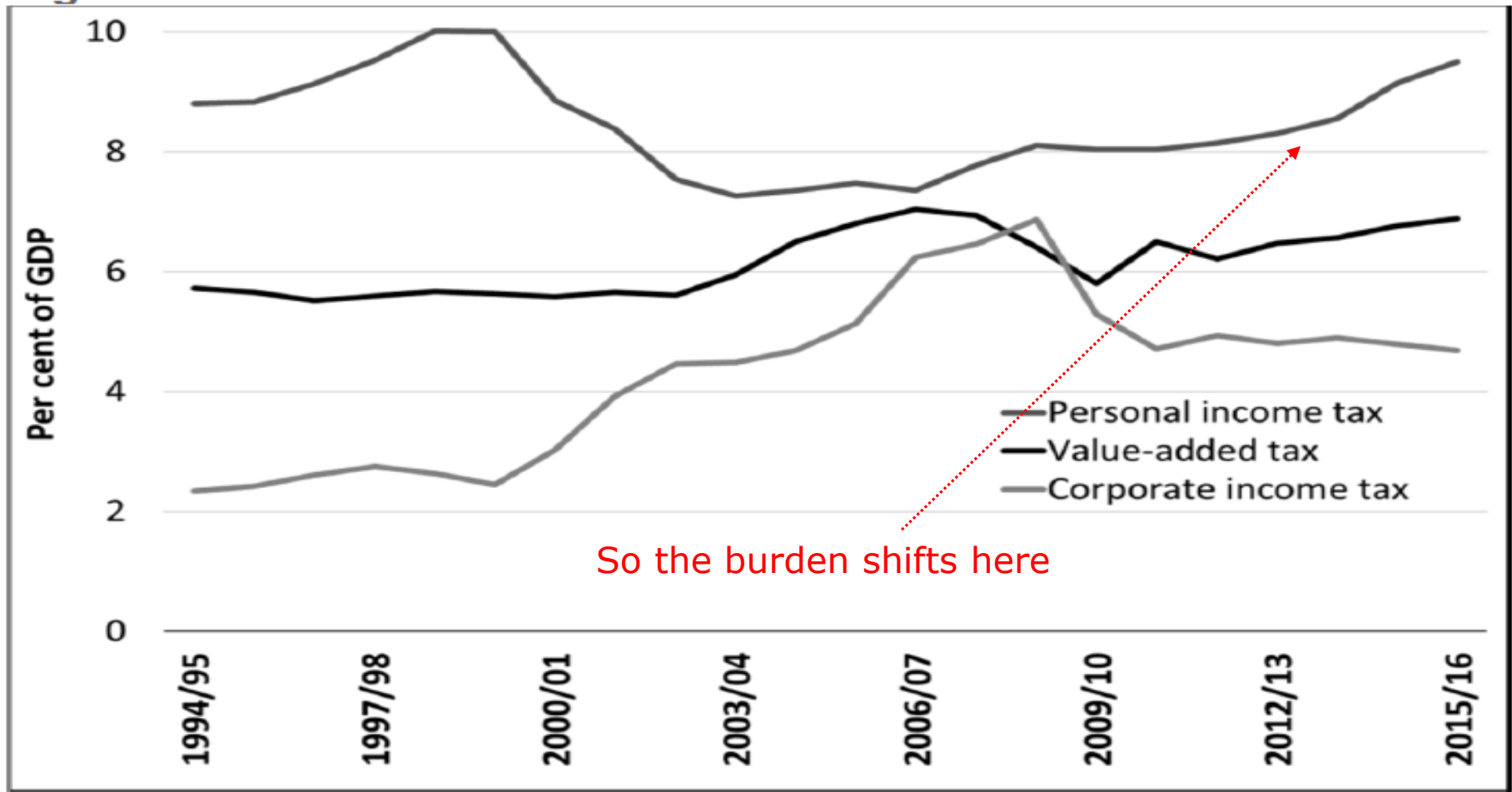
This is what a recession and then stagnant economy does

Source: National Treasury

THE TAX PROBLEM: CIT HARD TO RAISE, VAT UNTOUCHABLE – GUESS WHAT'S LEFT?

FURTHER RISE IN THE PERSONAL INCOME TAX BURDEN IS PRETTY MUCH INEVITABLE

Figure 4.1 Main sources of tax revenue



Source: National Treasury

LONGEVITY IS BECOMING A BIG ISSUE

LONGEVITY

- ❖ Driven by healthier life styles and medical technology
- ❖ But it's also much more expensive
 - Medical costs: they rise faster than average inflation, age also brings ailments & frail care
 - Retirement accommodation *is expensive*
 - One of the key pieces of medical advice to US seniors is: *do not fall (fractures, complications & costs)*

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- ❖ Some SA stats (from StatsSA)
 - In 2002 the population 75+ totaled 593k, or 1.3% of total population
 - In 2016 the population 75+ totaled 923k, or 1.7% of total population
 - In 2002 the population 80+ totaled 268k, or 0.6% of total population
 - In 2016 the population 80+ totaled 417k, or 0.8% of total population
 - Males in the age group 60 – 64 totaled 481k in 2001
 - Males in the age group 75 – 79 totaled 176k in 2016
 - This indicates a 37% survival rate over this period

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- ❖ US Actuarial Society:
 - 65 yr old male has 50% chance to reach 82
 - 65 yr old female has 50% chance to live to 85

27

INVESTMENT RETURNS ARE LOWER AND PROSPECTS ARE NOT GOOD

HIGH INVESTMENT RETURNS WERE THE NORM IN SA...

Sector	10 years 60-69 (%)	10 years 70-79 (%)	10 years 80-89 (%)	10 years 90-99 (%)	10 Years 00-09 (%)	5 years 10-14 (%)	58 years 60-17 (%)	
Shares	15.8	21.3	26.7	16.6	17.9	16.1	18.8	
Bonds	4.5	6.8	11.8	19.5	13.5	15.3	11.4	
Cash	4.4	8.2	14.8	16.2	10.0	5.6	10.1	
Inflation	2.5	10.3	14.7	9.4	6.2	5.2	8.2	

Rough estimates
Balanced Fund of 60:30:10
 Over 56 years: 15.9% vs 8.3% inflation = 7.6% real



...BUT, SADLY, NO LONGER



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 Past 3 years 8.1% or only 2.0% real
 Balanced UT funds averaged 5½% after costs, or -½% real



...EVEN IF THINGS GET BETTER, YOU STILL NEED TO SAVE MUCH MORE



Sector	10 years 60-69 (%)	10 years 70-79 (%)	10 years 80-89 (%)	10 years 90-99 (%)	10 Years 00-09 (%)	5 years 10-14 (%)	3 years 15-17 (%)	58 years 60-17 (%)	What we expect (%)
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Rough estimates
Balanced Fund of 60:30:10
 Over 56 years: 15.9% vs 8.3% inflation = 7.6% real
 Past 3 years 8.1% or only 2.0% real
 Going forward: 9.2% vs 5½% inflation = 3.7% real



THE OLD QUESTION...AND THE STANDARD ANSWER

- ❖ How much capital do I need?
 - Estimates differ widely, *but it's most likely more than you think*
- ❖ Only 3 things determine how you get to 'enough capital'
 1. How long you save for
 2. How much you save
 3. Investment return

Of the above three, only number 2 is in your control

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Of the above three, only number 2 is in your control
- ❖ As a guide over 35 years on a defined contribution fund:
 - 13% of income saved (3% pa real salary growth)
 - 3% pa real investment return
 - 6½% withdrawal rate at retirement
 - First pension income will be about 33% of your last salary

To get to 75% of pre-retirement income, you must save about 30% of your income

This means, you need high investment returns to augment too little savings

DECISIONS FOR FUND MEMBERS

Key decisions are not necessarily investment ones, rather....

- It's a conscious decision to analyse your financial situation in detail...
- ...to make sure you fully understand your provisioning for future liabilities...
- ...save more, *much more*...
- ...implies a move to a life-time focus in financial affairs and resist life-stage decisions

Leave the underlying investment decisions to the professionals

- People often make their worst investment decisions when emotions run high
 - Taking money offshore in Dec 2001 and Jan 2016
 - Selling out of equities in 1998 and 2009...
 - Storming into tech shares in 2000 or small caps in 1998...
 - And so on and so on...
- Beware of fear and greed: both can cost you a lot of your capital

REGULATORY INFORMATION

Old Mutual Investment Group (Pty) Limited

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