

RETIREMENT SAVINGS COST (RSC) COMPARING RSC TABLES FOR VARIOUS SUPERFUND CHOICE SCENARIOS

With the arrival of the Retirement Savings Cost (RSC) disclosure in the Old Mutual SuperFund proposal documents, we can showcase how different scenarios impact the RSC tables.

These scenarios include:

- Different investment defaults
- Different contribution rates
- Different retirement savings periods (in years)
- Different preservation amounts

THE BASE CASE - WITH STARTING ASSETS

The base case for this comparison uses a typical Old Mutual SuperFund Choice employer, who has the following characteristics:

- 100 members
- Average annual salary of R200 000 per annum (so R16 666.67 per month) per member
- Average amount of retirement savings to date of R200 000 per member
- Risk benefits package costing 2.13%, and an overall, inclusive contribution rate of 12.00% has been assumed
- Trustee Choice investment default

Using the Retirement Savings Cost assumptions, the RSC tables for this Old Mutual SuperFund Choice scheme are as follows:

SCHEME TABLE

CHARGES	1 YEAR	1 TO 3 YEARS	1 TO 5 YEARS	1 TO 10 YEARS
Investment Management	0.62%	0.62%	0.62%	0.62%
Advice	0.28%	0.26%	0.25%	0.22%
Administration	0.20%	0.19%	0.17%	0.15%
Other	0.73%	0.73%	0.73%	0.73%
Total Retirement Savings Cost (RSC)	1.83%	1.80%	1.77%	1.72%



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The important base value in the scheme context is the 10-year Total Retirement Savings Cost, which in this case is 1.72% (cost as a percentage of assets).

ILLUSTRATIVE MEMBER TABLE

Total 10-year RSC (as a % of assets)		1.72%		
Sample member: 30 years old RSC Term: 10 years		Annual Salary		
		R60 000	R240 000	R600 000
Current member share	R0	6.57%	3.83%	3.31%
	R100 000	1.83%	1.99%	2.17%
	R500 000	1.44%	1.53%	1.66%

The important base values in the illustrative member context is the **range** of Total Retirement Savings Costs that different members in this illustration could experience, which in this case is 1.44% to 6.57% (range of costs, as a percentage of assets).

SCENARIOS

The different scenarios that we are showcasing below include:

SCENARIOS	IMPACT	COMMENTS
Different investment defaults Trustee Choice (base case) compared to other four lifestage default options	Scheme table - various	Trackers (passive) come at the lowest cost; smoothing and guarantees provide additional benefits, with their own costs
Different contribution rates Gross contribution rate of 12% to retirement savings (base case), compared to 5% and 15%	Scheme table - mostly lower RSC for higher contribution rates	Most advisers encourage members to save 15% or more towards retirement if possible
Different retirement savings periods (in years) 10 years (as the base case used in RSC) compared to 25 years and 40 years	Scheme table - lower RSC for longer retirement savings period	Most advisers encourage members to save for their full working career
Different preservation amounts R200 000 already preserved on average per member (base case) compared to R0 and R500 000	Scheme table - lower RSC for higher preservation amounts	This comparison highlights another critical factor in support of preservation - your costs reduce as a % of assets, the more you accumulate

DIFFERENT RSC VALUES BASED ON DIFFERENT SCENARIOS

Now referencing the base case RSC values, the different scenarios produce the following outputs:

SCHEME TABLE IMPACT:	BASE CASE RSC - TRUSTEE CHOICE	SMOOTHED LIFESTAGE	MULTI-MANAGER LIFESTAGE	SINGLE MANAGER LIFESTAGE	TRACKER LIFESTAGE
IMPACT OF DIFFERENT INVESTMENT DEFAULTS	1.72%	1.21%	1.44%	1.22%	0.78%
SCHEME TABLE IMPACT:	BASE CASE RSC - GROSS CONTRIBUTION RATE OF 12% TO RETIREMENT SAVINGS			5%	15%
IMPACT OF DIFFERENT CONTRIBUTION RATES	1.72%			1.67%	1.71%
SCHEME TABLE IMPACT:	BASE CASE RSC - 10-YEAR			25-YEAR	40-YEAR
IMPACT OF DIFFERENT RETIREMENT SAVINGS PERIODS (IN YEARS)	1.72%			1.63%	1.58%
SCHEME TABLE IMPACT:	BASE CASE RSC - R200 000 AVERAGE SAVED TO DATE			R0	R500 000
IMPACT OF PRESERVATION	1.72 %			4%	1.51%

APPLES WITH APPLES, OR APPLES WITH PEARS

These scenarios help to highlight how RSC values could be impacted by the various choices made when choosing an umbrella fund. At the same time, they also help to highlight the importance of comparing like with like, given that other umbrella funds will be illustrating their different benefits and features. Finally, this helps to highlight the much greater impacts of contributing enough to retirement and preserving your accumulated retirement savings, whenever the opportunity presents. Costs do matter, but it is not all that matters.

Based on figures as at 31 January 2020



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