



RETIREMENT SAVINGS COST (RSC)

COMPARING RSC TABLES FOR VARIOUS OLD MUTUAL SUPERFUND EASY 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 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 Easy employer, who has the following characteristics:

- 20 members
- Average annual salary of R60 000 per annum (so R5 000 per month) per member
- Average amount of retirement savings to date of R10 000 per member
- Pre-packaged risk benefits costing 2.13%, and an overall, inclusive contribution rate of 8.5% has been assumed
- Trustee Choice investment default

Using the Retirement Savings Cost assumptions, the RSC tables for this Old Mutual SuperFund Easy 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	2.85%	2.36%	2.05%	1.58%
Administration	3.26%	2.70%	2.34%	1.81%
Other	1.30%	1.19%	1.13%	1.03%
Total Retirement Savings Cost (RSC)	8.03%	6.87%	6.14%	5.04%



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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 5.04% (cost as a percentage of assets).

ILLUSTRATIVE MEMBER TABLE

Total 10-year RSC (as a % of assets)		5.04%		
Sample member: 30 years old RSC term: 10 years		Annual Salary		
		R60 000	R240 000	R600 000
Current member share	R0	13.27%	7.95%	7.00%
	R100 000	2.03%	2.58%	3.20%
	R500 000	1.48%	1.67%	1.98%

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 1.48% to 13.27% (range of costs, as a percentage of assets).

SCENARIOS

The different scenarios that we are showcasing below include:

SCENARIOS	IMPACT	COMMENTS
Different contribution rates 8.5% to retirement savings (base case), compared to 10% and 15%	Scheme table – 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
Preservation R10 000 already preserved on average per member (base case) compared to R0 and R125 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 - 8.5% GROSS CONTRIBUTION RATE	10%	15%
IMPACT OF DIFFERENT CONTRIBUTION RATES	5.04%	4.61%	3.79%

SCHEME TABLE IMPACT:	BASE CASE RSC - 10-YEAR	25-YEAR RSC	40-YEAR RSC
IMPACT OF DIFFERENT RETIREMENT SAVINGS PERIODS (IN YEARS)	5.04%	3.70%	3.16%

SCHEME TABLE IMPACT:	BASE CASE RSC - R10 000 AVERAGE SAVED TO DATE	R0	R125 000
IMPACT OF PRESERVATION	5.04%	13.27%	1.90%

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

