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OLD MUTUAL SA RETIREMENT GAUGE 2022

An analysis of members' retirement readiness
in umbrella funds | June 2022



CORPORATE CONSULTANTS

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FOREWORD



Blessing Utete

Managing Executive Old Mutual
Corporate Consultants

“The Best Time to Plant A Tree
Was 20 Years Ago, **The Second
Best Time Is Now**” Chinese Proverb

Old Mutual recently conducted a social experiment whereby eight typical SA families were asked to fill a shopping trolley with all the groceries they need in a month. What they did not know was that the item prices were adjusted to what they would be when the breadwinner retires. The budget was similarly adjusted for the projected income during retirement, based on the current savings trajectory. Alarming, every family was over budget – ranging between 100% and 800%

The experiment seeks to link the decisions members make today and the direct impact these decisions have on their future selves at retirement. It endeavours to spotlight outcomes and positively encourage that it is never too late to adjust and reconfigure. The social experiment campaign has since been coined #powertheirnextbeginning.

To enable employers to help their employees power their next beginning, we need to properly understand the facts and the reality that besets our retirement fund members. We also need to unpack the reality of employees’ choices in the funds.

An immense effort has been taken to deep dive into what the actual data is telling us. The significant analysis done in this report enables us to factually analyse the trends of members in umbrella funds. The assessment of over 6300 participating employers and almost 500 000 members helps us further the much-needed conversation around retirement readiness.

As quoted in the Chinese proverb noted above, it is never too late to make the changes we need to make and for individual members to take ownership of the tools they have in these umbrella retirement funds to ensure a better outcome at retirement.



We hope this analysis enables industry stakeholders to have meaningful conversations about the state of retirement readiness of South Africans and make the decisions required to target better retirement outcomes for members and then also track the results of these efforts over time. This report also comes at a time when we are seeing tangible retirement reforms being introduced with more planned to provide some much-needed impetus along with guard rails to ensure that members can achieve better retirement outcomes.

We thank the team that has worked on this report, and we look forward to the engagements and discussions that will emanate from the results shared.

1. NATURE OF UMBRELLA FUNDS, MEMBERSHIP DATA AND METHODOLOGY

Umbrella funds are a significant, and growing, part of South Africa's retirement funding landscape. Many members of occupational retirement schemes are now members of an umbrella fund.



Andrew Davison
Head of Advice

This analysis took a detailed look at the retirement savings habits and readiness of South Africans who belong to umbrella retirement funds through their employers' occupational schemes. It is based on actual data rather than a survey of opinions or interviews.

The effective date of the data is 28 February 2022.

Characteristics of the umbrella funds:

- Umbrella retirement funds – pension and provident
- Approximately 6 300 employers of different sizes across all industries in South Africa

SIZE OF SCHEMES	NUMBER OF SCHEMES	
	Pension	Provident
< 100	1 272	4 403
100 - 999	185	427
1 000 - 1 999	5	20
>= 2 000	7	17

- The funds are Type-A funds and as such participating employers select a specific benefit structure that applies to their employee group and is governed by specific sub-rules. The analysis thus reflects a broad range of different benefit structures.
- They have around 490 000 active members; 126 000 in pension and 364 000 in provident funds.
- Some members were excluded for the purposes of this analysis. For instance:
 - Paid-up and deferred pensioners
 - In-fund preservation members
 - Members past the NRA
 - Members belonging to risk-only schemes
- The funds analysed manage over R138 billion in retirement savings; R69.6 billion in pension and R68.7 billion in provident funds.

- The split of membership is as follows:

GENDER SPLIT	Pension	Provident
Male	51%	52%
Female	49%	48%
AVERAGE AGE	Pension	Provident
Male	42	41
Female	41	40

- The pension section includes some back-to-back schemes (where members belong to both a pension fund and a provident fund and make separate contributions to both). Fund credits from the provident fund section have been added to the members' fund credits in the pension fund for the purposes of this analysis.
- Some of the graphs and tables show the average figures for various metrics, segmented by ages or other sub-categories. Not all of these groupings are of equal size and some might contain very small numbers of members so some caution is needed in interpreting the results. Where it is considered necessary, the relative size of these groupings is indicated using an additional table.

DEFINITIONS

In this document, the following definitions and abbreviations are used:

Fund refers to an umbrella fund.

MAS means Multiple of Annual Salary. A full explanation of this term is provided at the start of the Accumulated savings section on page 12.

NRA refers to the Normal Retirement Age determined by the rules of a scheme or fund.

Scheme denotes a retirement funding arrangement provided by a participating employer to its employees.

2. EXECUTIVE SUMMARY

Old Mutual Corporate Consultants conducted an analysis of large umbrella funds in South Africa, incorporating pension and provident funds, to gain valuable insights into the actual retirement savings of employed South Africans and their retirement readiness.

KEY INSIGHTS

Type of fund used by employers

Twice as many members belong to provident funds as to pension funds. Historically, provident funds were favoured by employers with predominantly lower-income workers. However, after the changes to provident funds implemented in 2019, there is no distinction between the two types of funds (except for the treatment of vested rights).

Normal retirement age

The largest proportion of members are in schemes with an NRA of 65 (48% of all schemes, both pension and provident, measured by membership). Many members (35%) are in schemes that still have an NRA of 60, which makes it very challenging to save enough for retirement.

Pensionable salary

The average pensionable salaries of workers in pension funds are significantly higher than in provident funds. This is mostly driven by the higher number of members earning a pensionable salary below R10 000 per month in provident funds. The gender pay gap is evident in both types of funds. Males in pension funds on average earn 29% more than females. In provident funds they earn 39% more.

Contributions

Very few members are taking full advantage of the significant tax breaks offered in relation to contributions to an approved retirement fund. Only 2% of pension fund and 4% of provident fund members contribute 20% or more of their pensionable salary. Quite a few (7 - 8% of members) do make additional voluntary contributions to their scheme, benefitting from the cost advantages this offers compared to saving the same amount in a retail product. A small but significant number of members (6%) contribute less than 5% towards their retirement savings. The average net contribution to pension funds is 12.6%, which is much higher than the 10.8% average for provident funds. Members in the lowest salary band (earning a pensionable salary of below R10 000 per month) contribute the smallest percentage compared to members in other salary bands (around 10% vs around 13%). Members in higher salary bands contribute very similar levels towards their retirement savings. Many members have a difference of 4% or more between their net contribution percentage and gross contribution percentage. This is true for 18% of pension fund members and 38% of provident fund members. This difference is comprised of administration costs, advice costs and risk benefit costs. Although there may be good reasons for this large gap, e.g. more generous risk benefits such as group life cover, reducing this gap will allow more money to be directed to these members' retirement savings.

Retirement savings

On average, members are accumulating savings at a much slower pace than required to achieve a replacement ratio of 70 – 75%. It should be noted that these averages reflect only the savings that members have in their current employers' funds. It is clear that most employees cannot rely solely on their savings in their current employers' retirement fund to provide for their retirement.

Male members of pension funds appear to, on average, accumulate slightly higher multiples of their annual salary relative to females. This gap widens with increasing age. This may be because females have to take more time off work, e.g. maternity leave. Interestingly, this is not mirrored in provident funds, where the average MAS for males and females of the same age are very similar.

In higher salary bands (members earning more than R10 000 per month) there is very little difference in asset accumulation relative to salary. This indicates that even high earners do not seem to prioritise retirement savings over current consumption.

Those falling in the lowest salary band (earning below R10 000 per month) do, however, lag those in other bands in terms of accumulation of savings relative to salary. This finding is more significant for females than males. The reason for this is that members in this category have a lower average net contribution percentage, probably because of two main factors: (1) more of their contribution goes towards risk benefits, and (2) they are under more pressure to take home as much pay as possible. Although this is cause for some concern, members in this group are the most likely to qualify for the state old age grant, which will boost their overall income in retirement.

The group that is least prepared for retirement is female members of provident funds who earn below R10 000 per month.

Members nearing retirement

More than half the members who are within five years of the NRA have retirement savings of less than three times their annual salary. This is very low in relation to the required targets of at least nine times for a male and 9.7 times for a female retiring at 65.

Only 6% of members who are within one year of the NRA have an MAS of nine or higher. Although this ignores factors like gender (females need slightly more capital for the same pension), NRA (a lower NRA means more capital is required for the same pension), type of annuity (this will affect the monthly pension received) as well as other savings, it does broadly corroborate the oft-quoted statistic that only 6% of South Africans can afford to retire comfortably.

In terms of readiness for retirement, pension fund members are faring slightly better with 10% of pension fund members within one year of the NRA having an MAS of at least nine. This is more than double the percentage of similarly well-prepared members in provident funds where the corresponding number is 4%.

Members exiting funds

Despite regulations aimed at encouraging preservation, the proportion of members taking their savings out of funds when they change jobs remains very high. Members in their twenties take more than 90% in cash and even members in their fifties, with retirement looming, take 50% or more in cash.

The decision to take the cash instead of preserving it is closely linked to the size of the benefit. Those with a benefit value of less than R50 000 are very likely to take the full amount, irrespective of age. Members who have accumulated more are more likely to preserve it and 70% of those who have more than R2 million in their funds tend to preserve it.

There is a stark difference between pension and provident funds in terms of the proportion taken as a lump sum at retirement. Pension funds restrict members to a maximum lump sum of one third and this is reflected in the actual lump sum members take of around 20%. Provident fund members, who have no such restriction, take around half their capital as a lump sum. This reflects in even poorer outcomes in terms of replacement ratios for provident fund members.

3. PENSIONABLE SALARY

It is important to have an appropriate, realistic definition of the salary that an employee is aiming to replace when they reach retirement.

Pensionable salary is an important definition in the rules of many retirement funds, or alternatively in the employment contracts of staff. Pensionable salary is generally below the cost-to-company salary, which means that a replacement ratio based on the pensionable salary may be misleading.

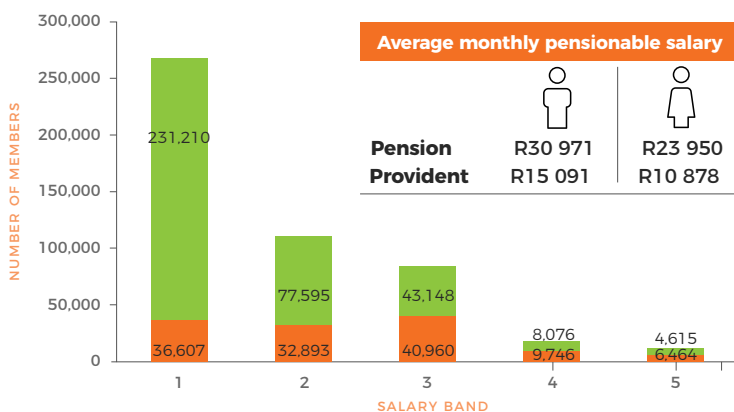
Pensionable salary is, in fact, an outdated concept following changes to the Income Tax Act in 2016 that harmonise the tax treatment of different types of retirement funds. In some cases, employers have therefore amended their definition of pensionable salary to be the cost-to-company salary, and this makes sense.

The salary bands used to analyse umbrella fund membership are:

Salary Band	Pensionable salary per month
1	< R10 000
2	R10 000 - R20 000
3	R20 000 - R50 000
4	R50 000 - R80 000
5	> R80 000



Graph 1: Membership per salary band



INTERESTING INSIGHTS

- A provident fund is a popular choice of retirement vehicle for employers with predominantly lower income workers – 52% of members earn below R10 000 a month and 86% of those members belong to provident funds.
- Members are more likely to belong to a provident fund than a pension fund – three quarters of members are in provident funds.
- The gender pay gap is evident in both pension and provident fund members' salaries. Male members of pension funds on average have 29% higher salaries and male members of provident funds have 39% higher salaries.

4. NORMAL RETIREMENT AGE (NRA)

Improving longevity has made the challenge of saving for retirement more onerous because the expected time spent in retirement increases unless the retirement age is adjusted upwards accordingly.



Table 1 shows the breakdown of members based on the NRA of their employers' schemes. Several schemes have a different NRA for different categories of workers, and this is usually linked to the date when they joined the scheme.

Table 1: Membership according to the NRA

NRA	Pension	Provident	Total
56 - 59	0%	0%	0%
60	25%	38%	35%
61	14%	1%	4%
62	2%	0%	1%
63	12%	7%	8%
65	44%	49%	48%
66	4%	4%	4%

INTERESTING INSIGHTS

- The most common NRA is 65 and applies to 48% of all members (pension and provident funds).
- There are still many members whose retirement schemes have an NRA of 60 - 63, although this number has dropped since many schemes have raised their NRA to 65.

Note: 2 511 (2.0%) of pension fund members and 2 131 (0.6%) of provident members are still active members of their funds although they have passed the NRA of their scheme.

5. CONTRIBUTIONS

Contributions are the critical starting point of any retirement savings plan. If the contributions are not sufficient, investment growth, and the wonders of compound interest, have nothing with which to work their magic.

The net contribution percentage is the percentage of pensionable salary that goes towards retirement savings (net of any risk, administration and advice costs).

Average net contribution as a percentage of pensionable salary

Pension: 12.6%

Provident: 10.8%

Table 2: Average net contribution as a percentage of pensionable salary by salary band

Salary band	Pensionable salary p.m.	Pension	Provident
1	< R10 000	10.3%	9.4%
2	R10 000 – R20 000	13.0%	13.3%
3	R20 000 – R50 000	13.7%	12.4%
4	R50 000 – R80 000	13.5%	12.9%
5	> R80 000	13.2%	12.6%

INTERESTING INSIGHTS

- The **average net contribution percentage is 10.8% for provident fund members and 12.6% for pension fund members.**
- Lower-income workers in salary band 1 (earning below R10 000 per month) have a lower contribution percentage than those in higher salary bands. This is likely because this group faces the greatest pressure on take-home pay. It is possible that this also, at least partly, reflects the fact that people in this income band are more likely to qualify for the State old-age grant that will form a key element of their retirement plan. In other words, they, and their employers, are prioritising take-home pay now over saving for retirement.
- Members in the other four salary bands have very similar contribution rates as a percentage of pensionable salary.



Table 3: Net contribution as a percentage of pensionable salary

Percentage of provident members	Net Contribution %	Percentage of pension members
2%	<3%	2%
2%	3%	3%
3%	4%	2%
8%	5%	3%
3%	6%	3%
5%	7%	5%
7%	8%	3%
13%	9%	4%
23%	10%	15%
5%	11%	5%
6%	12%	5%
6%	13%	5%
4%	14%	5%
5%	15%	14%
4%	16%	14%
1%	17%	3%
1%	18%	2%
1%	19%	5%
4%	20%+	2%

Recommended contribution percentage

INTERESTING INSIGHTS

- The **spread of contribution percentages is a function of three main factors**: (1) the percentage set as the default by the scheme (employer), (2) the level of costs and risk premiums deducted from the total contribution, and (3) the contribution percentage chosen by the members.
- Only a quarter of members are contributing at or above the recommended **contribution percentage of 15% of their salaries***.
- Very few members (2% of pension fund and 4% provident fund members) are **contributing at or above 20%**. This is, however, still nearly 15 000 members, who are taking full advantage of the tax deductions available on contributions while simultaneously boosting their chances of a comfortable retirement.
- The four **most common contribution categories** are 9% (many provident fund members), 10% (both pension and provident) as well as 15% and 16% (both common in pension schemes).
- A small but still significant percentage (7% of pension fund and 6% of provident fund members) are **contributing less than 5% of their salary** towards retirement. For them, membership of a retirement fund is essentially notional and should not be construed as a suitable retirement plan.

*Old Mutual Corporate Consultants recommends a minimum net contribution level of 15% of salary invested to grow at 5% above inflation per year from the age of 30 to 65 to be able to afford a pension of about 70% of final salary. This assumes salary increases of inflation +1% per year and assumes a pension is bought utilising a single life with profit annuity with post-retirement interest (PRI) assumption of 3.5%.

Impact of costs and other benefits on retirement savings

Saving for retirement is not the sole purpose of a retirement fund. Most retirement funds also include certain risk benefits such as group life and disability cover. In addition, there are costs for administration of the scheme and for advice that are deducted from contributions before the net amount is invested.

Tables 4 (pension funds) and 5 (provident funds) provide a breakdown of the percentage of members with different levels of overall costs as a percentage of salary. Green indicates low costs and red high overall costs.

Table 4: Total costs paid by members as a percentage of pensionable salary (pension funds)

		Risk, advice & administration costs (% of salary)						Overall % of members
		0 - 1%	1 - 2%	2 - 3%	3 - 4%	4 - 5%	5%+	
Net contribution	<5%	2%	3%	2%	0%	0%	0%	7%
	5 - 9.9%	5%	3%	5%	3%	2%	1%	19%
	10 - 14.9%	3%	12%	10%	7%	1%	1%	35%
	15 - 19.9%	1%	13%	9%	3%	3%	8%	37%
	20%+	0%	1%	0%	0%	0%	0%	2%
Percentage of members		12%	31%	26%	13%	7%	11%	

Table 5: Total costs paid by members as a percentage of pensionable salary (provident funds)

		Risk, advice & administration costs (% of salary)						Overall % of members
		0 - 1%	1 - 2%	2 - 3%	3 - 4%	4 - 5%	5%+	
Net contribution	<5%	1%	1%	2%	1%	0%	0%	6%
	5 - 9.9%	3%	4%	11%	5%	11%	2%	37%
	10 - 14.9%	3%	5%	6%	7%	20%	1%	42%
	15 - 19.9%	0%	4%	2%	2%	0%	2%	12%
	20%+	0%	3%	0%	0%	0%	0%	4%
Percentage of members		7%	17%	22%	15%	32%	6%	

Note: Some schemes pay certain costs from an expense reserve account or from member accounts. Risk costs may also be paid from contributions or settled outside contributions. These costs are not reflected in the contributions. For this reason, not all schemes can be compared purely on the difference between gross and net contribution percentages.

INTERESTING INSIGHTS

- The share of gross contributions paid by members that goes towards other benefits and costs is **higher for provident fund members**, leaving less to be invested for retirement.
- A significant number of members (18% of pension and 38% of provident fund members) have a difference between gross and net contributions of 4% or more. Although there may be good reason for this, e.g. more generous risk benefits, closing this gap will allow more money to be directed towards their retirement savings.

Additional voluntary contributions (AVC)

Number of members making AVCs in the previous two-month period:

Pension funds:	11 151	(8% of membership)
Provident funds:	24 105	(7% of membership)

INTERESTING INSIGHTS

- A fair number of members (7-8%) take advantage of the **opportunity to make additional contributions** to their retirement scheme. There is scope for even more members to make use of this valuable facility, particularly given the low costs associated with such savings compared to retail solutions.
- Contribution percentages are a function of employer contributions plus employee contributions. Some schemes offer employees a choice of contribution percentages, while others specify a contribution percentage. As a result, the level of contributions is influenced by both employers and employees.



6. ACCUMULATED SAVINGS

The primary purpose of any retirement fund is to enable people to accumulate savings to be converted into a monthly income during retirement.

Members' ability to accumulate sufficient assets by the time they reach retirement age is a crucial element to evaluate.

In this report, the acronym MAS is used to mean Multiples of Annual Salary, i.e. retirement savings as a multiple of annual pensionable salary.

Example:

Pensionable salary	R10 000 per month = R120 000 per year
Fund credit	R120 000
MAS	$\frac{R120\ 000}{R120\ 000} = 1$

The approximate MAS required at 60 and 65 to generate a pension of 70% of pensionable salary with inflation-related increases for life (based on a with-profit annuity with a post-retirement interest rate of 3.5% and no guarantee period):

	Required MAS	
	At age 60	At age 65
Male, single	10.0	9.0
Female, single	10.8	9.7
Couple, female 5 years younger*	11.6	10.5

*50% spouse's pension payable in event of the death of the member.

The required MAS is dependent on the retirement age and the type of annuity.

In terms of retirement age, a younger retirement age implies a higher MAS because there is a longer expected retirement period.

The type of annuity is also important. If it's a living annuity, the required MAS will be much higher than the above figures. This is because of the uncertainty as to how long the retiree will live with the resultant need to plan for a long lifespan.

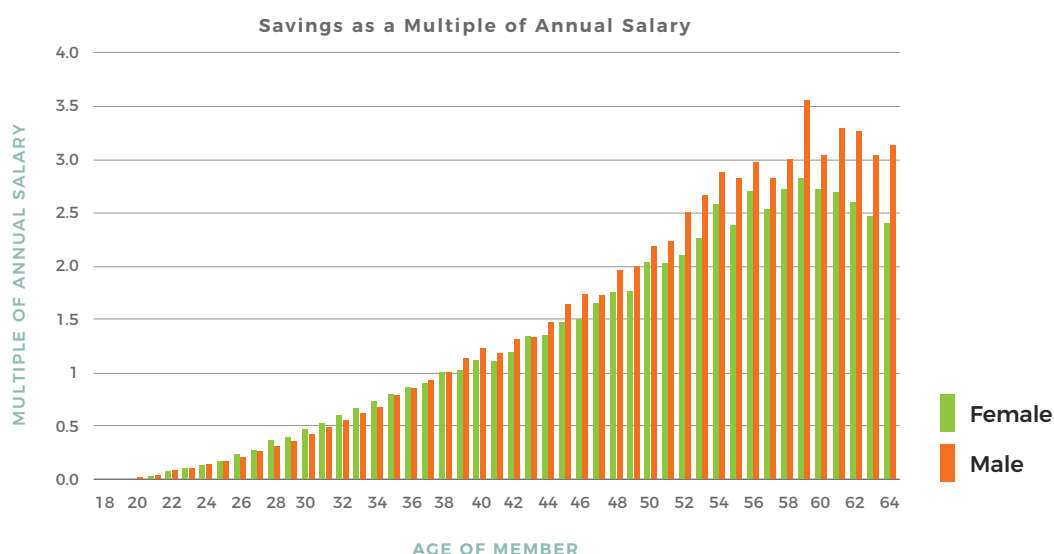
As an indication, based on the levels of sustainable drawdown recommended by Old Mutual Corporate for retirees who invest in a living annuity, the approximate required MAS at age 65 is:

Male, single	16.7
Female, single	19.4
Couple, female 5 years younger*	21.9

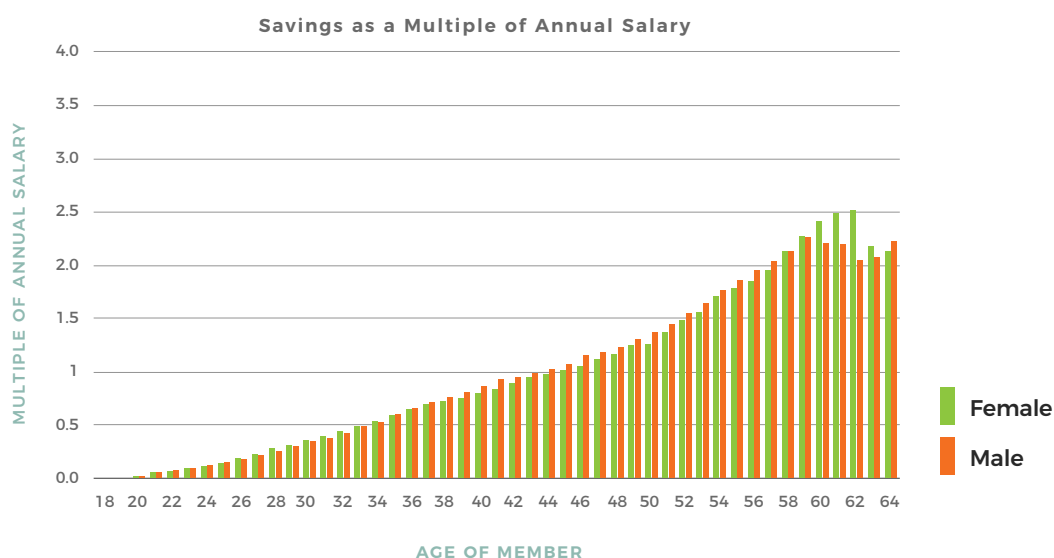
An important determinant of asset accumulation is the investment growth earned on savings. Umbrella funds generally offer a choice of different portfolios to members. The majority of members are, however, invested in the funds' default investment strategies.

Graphs 2a and 2b set out the assets accumulated by members of pension funds and provident funds, showing the average MAS by age.

Graph 2a: Multiples of annual salary accumulated set out by age (pension fund)



Graph 2a: Multiples of annual salary accumulated set out by age (provident fund)



INTERESTING INSIGHTS

- The **accumulation of savings by members is, on average, much slower than required** to achieve a replacement ratio of 70%. This is partly due to new employees who join at an older age without transferring existing savings to their new scheme. This brings the average MAS down. It is nonetheless clear that most employees cannot rely solely on their savings in their current employer's retirement fund to provide for their retirement.
- In pension funds, **female members appear to initially, on average, accumulate assets slightly ahead of their male colleagues**. This trend reverses when they reach their late thirties whereafter the average multiples for males are higher than for females, with the gap widening significantly close to retirement. This may be as a result females having to be absent from work more than men due to child-rearing responsibilities.
- Interestingly, this is **not mirrored in provident funds**, where the levels of MAS for males and females of the same age are very similar.
- The **drop in average MAS in the years close to retirement** may be a feature of well-funded members who retire before 65 (some because their schemes have lower normal retirement ages and some who retire early).

Note: These MAS averages reflect only members' savings in their current employer's scheme. Although it is not always the case, some members also have savings in other retirement funds and other vehicles, which would enhance their overall retirement plan.

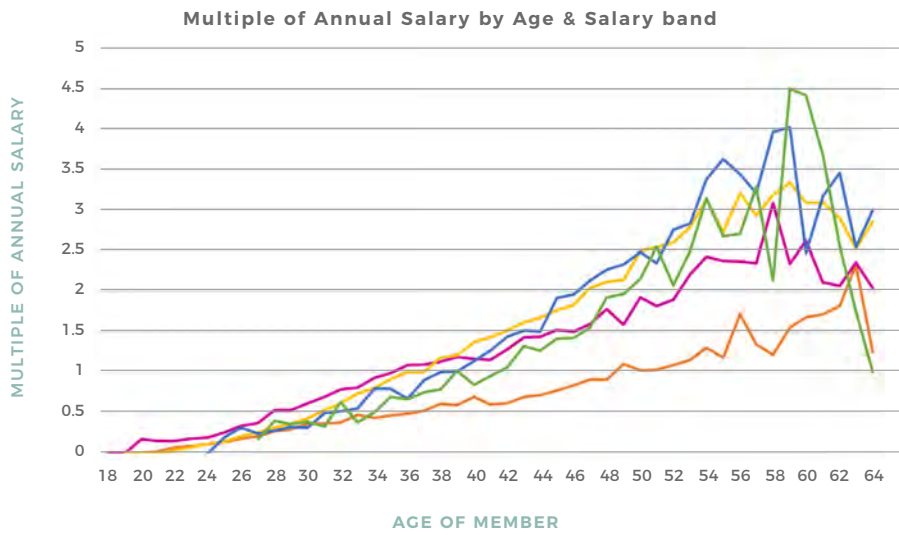
To understand the accumulation of savings for different groups, MAS was also analysed for different salary bands. The same five salary bands used to analyse pensionable salary were used for MAS.

Graph 3a & 3b: MAS by gender, age and salary band (pension fund)

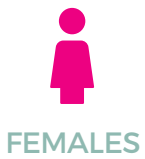
Graph 3a



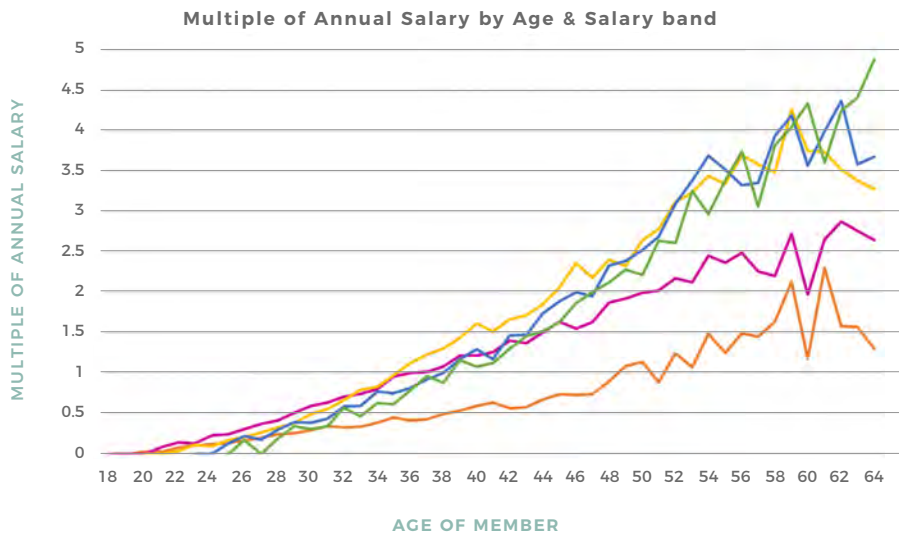
- 1
- 2
- 3
- 4
- 5



Graph 3b



- 1
- 2
- 3
- 4
- 5



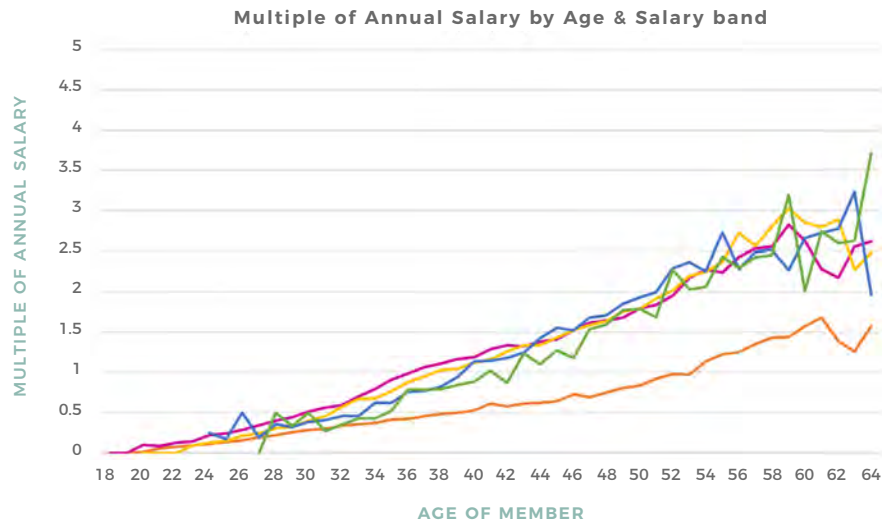
Graph 3c & 3d: MAS by gender, age and salary band (provident fund)

Graph 3c



MALES

- 1
- 2
- 3
- 4
- 5

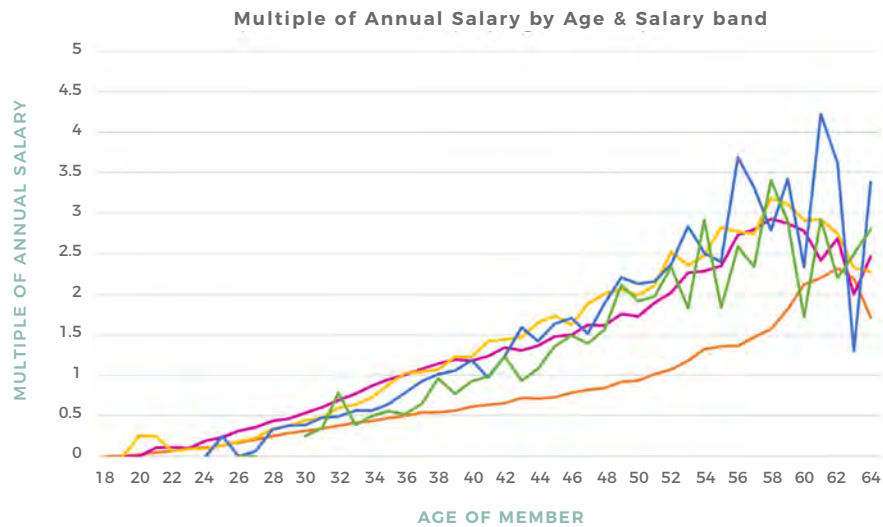


Graph 3d



FEMALES

- 1
- 2
- 3
- 4
- 5



An increase in income does not result in a greater propensity to prioritise retirement savings over current consumption.

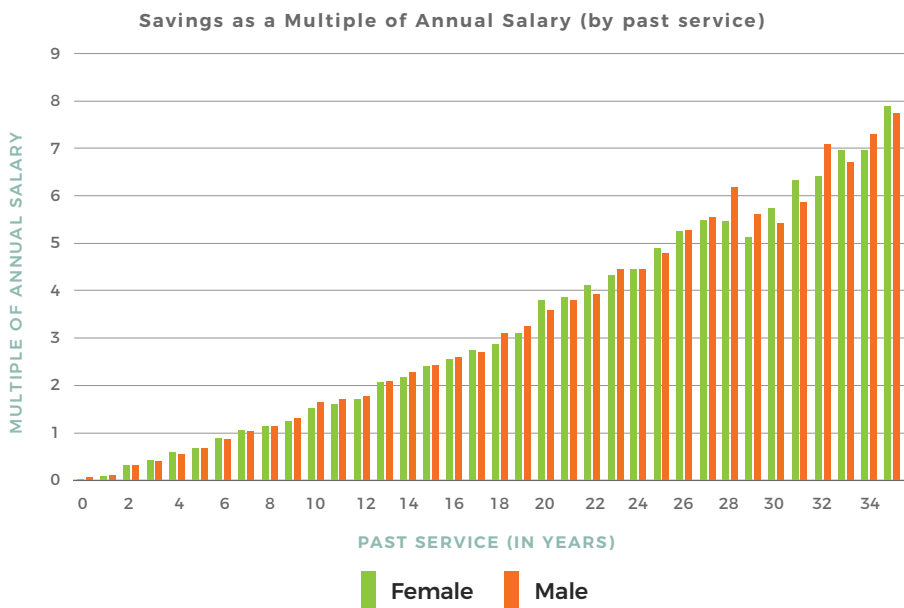
INTERESTING INSIGHTS

- Introducing salary as an indicator doesn't change the pattern very much. The four higher salary bands (where members earn more than R10 000 per month) show very little difference in asset accumulation in relation to salary. This indicates that an increase in income does not result in a greater propensity to prioritise retirement savings over current consumption.
- The lowest salary band (where members earn below R10 000 per month) does, however, lag the others in terms of savings as a multiple of their salary. This is more significant for females than males. Although this is cause for some concern, this group's income is supplemented by access to the state old-age grant.
- The group that is least prepared for retirement is females earning below R10 000 per month in the provident fund.

The analysis of accumulated savings based on age provides useful insights into retirement readiness. However, the averages are distorted by members who may have joined an employer (and hence scheme) when they were older without transferring existing savings into their new employer's scheme. To gain an understanding of members' ability to accumulate the required levels of savings in a particular scheme, it's necessary to assess the MAS based on length of service with an employer and hence length of membership of the retirement fund. Graphs 4a and 4b show this breakdown.

Although useful, this breakdown does have shortcomings. The main one is that the number of members declines significantly as length of service increases. To provide an indication of this decline in the number of members with longer service, the table to the right of each graph shows the breakdown of membership by past service.

Graph 4a: Multiples of annual salary by length of service with employer (pension fund)

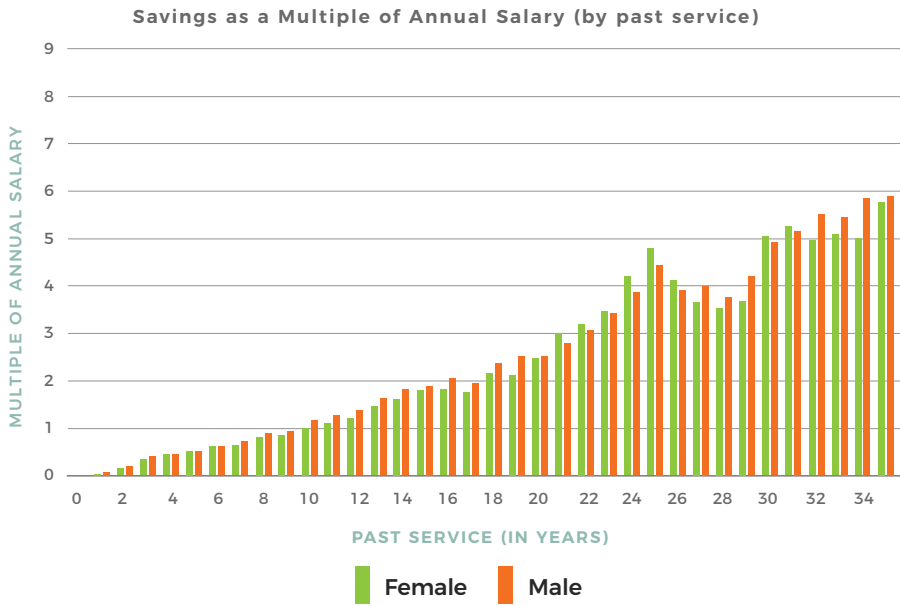


Breakdown of membership by past service

Past service	Female	Male
0	5.5%	5.1%
1	3.5%	3.5%
2	4.6%	4.1%
3	4.1%	4.0%
4	3.9%	3.3%
5	3.3%	2.9%
6	3.2%	2.8%
7	2.9%	2.6%
8	2.4%	2.0%
9	2.0%	1.9%
10	2.0%	1.8%
11	1.6%	1.7%
12	1.3%	1.4%
13	1.7%	1.7%
14	1.5%	1.6%
15	1.2%	1.2%
16	0.8%	0.9%
17	0.5%	0.7%
18	0.5%	0.9%
19	0.5%	0.8%
20	0.4%	0.5%
21	0.4%	0.4%
22	0.3%	0.3%
23	0.3%	0.3%
24	0.3%	0.4%
25	0.3%	0.3%
26	0.3%	0.3%
27	0.2%	0.3%
28	0.1%	0.2%
29	0.1%	0.2%
30	0.1%	0.2%
31	0.1%	0.2%
32	0.2%	0.2%
33	0.1%	0.2%
34	0.1%	0.1%
35+	0.0%	0.1%



Graph 4b: Multiples of annual salary by length of service with employer (provident fund)



Breakdown of membership by past service

Past service	Female	Male
0	2.8%	4.5%
1	4.0%	4.8%
2	4.7%	5.5%
3	4.4%	5.1%
4	5.2%	4.3%
5	2.8%	3.4%
6	2.7%	3.0%
7	2.7%	2.5%
8	2.2%	2.2%
9	2.1%	2.0%
10	1.8%	1.9%
11	1.5%	1.7%
12	1.3%	1.3%
13	1.4%	1.6%
14	1.2%	1.5%
15	0.9%	1.2%
16	0.8%	1.0%
17	1.1%	0.8%
18	0.3%	0.5%
19	0.3%	0.5%
20	0.3%	0.3%
21	0.3%	0.3%
22	0.2%	0.3%
23	0.2%	0.3%
24	0.5%	0.4%
25	0.3%	0.3%
26	0.1%	0.2%
27	0.1%	0.2%
28	0.1%	0.1%
29	0.0%	0.1%
30	0.1%	0.1%
31	0.1%	0.1%
32	0.1%	0.1%
33	0.0%	0.1%
34	0.0%	0.1%
35+	0.0%	0.0%



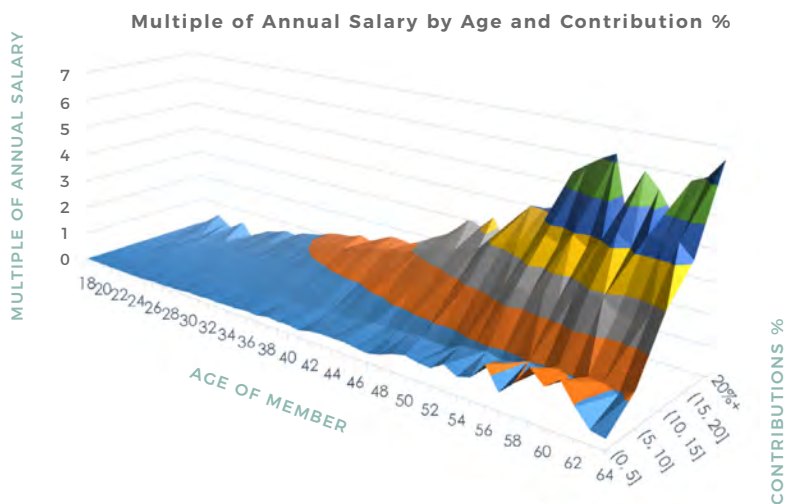
INTERESTING INSIGHTS

- Encouragingly, members with long service do manage to accumulate savings levels approaching the required targets for a replacement ratio of 70%. Unfortunately, the number of members with such long service is very small.
- Most members have not been with their current employer for long. 71% of pension fund members have been with their current employer less than 10 years, whereas this proportion is 75% for provident fund members.

Graphs 5a and b provide additional insight into the impact contribution levels have on the accumulation of assets. They show the average MAS for different member groups segmented by age (last birthday) and contribution percentage (rounded off to the nearest percentage). The table on the left shows the percentage of members that fall into each band of multiple of annual salary (corresponding to the colour bands in the graph).

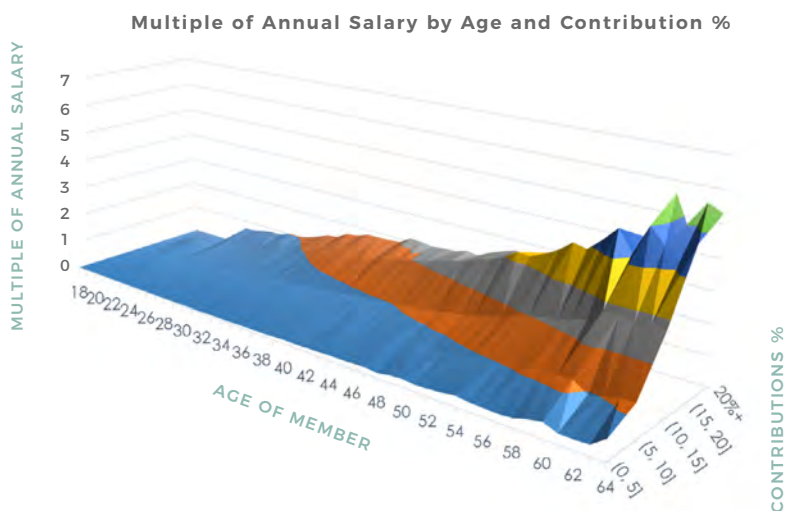
Graph 5a: Multiples of annual salary by age and contribution % (pension fund)

MAS	PERCENTAGE OF FUNDS' MEMBERSHIP
0-1	54%
1-2	24%
2-3	13%
3-4	6%
4-5	2%
5-6	0.2%
6-7	0.1%



Graph 5b: Multiples of annual salary by age and contribution % (provident fund)

MAS	PERCENTAGE OF FUNDS' MEMBERSHIP
0-1	72%
1-2	18%
2-3	7%
3-4	2%
4-5	1%
5-6	0.1%
6-7	0.0%



INTERESTING INSIGHTS

- Accumulating the required levels of savings is entirely possible but high contributions are essential.
- The proportion of members with the highest savings multiples of five or more is extremely small. Only 0.3% of pension fund members and 0.1% of provident fund members fall into this category.
- 54% of pension fund members and 72% of provident fund members have less than a year's pensionable salary in their funds. This is not a concern for young members because they have time but this group includes members who are close to retirement.

7. MEMBERS NEARING RETIREMENT

Members approaching retirement need to consider raising their contribution levels to make up a shortfall in retirement savings. They also have to start investigating the best options for converting their retirement savings into a monthly pension for life.

Members who are nearing retirement have limited time left to make adjustments to their retirement provision. This group needs to have saved sufficient assets to enable them to convert their capital to a monthly pension that is approximately the same as their income just before retirement.

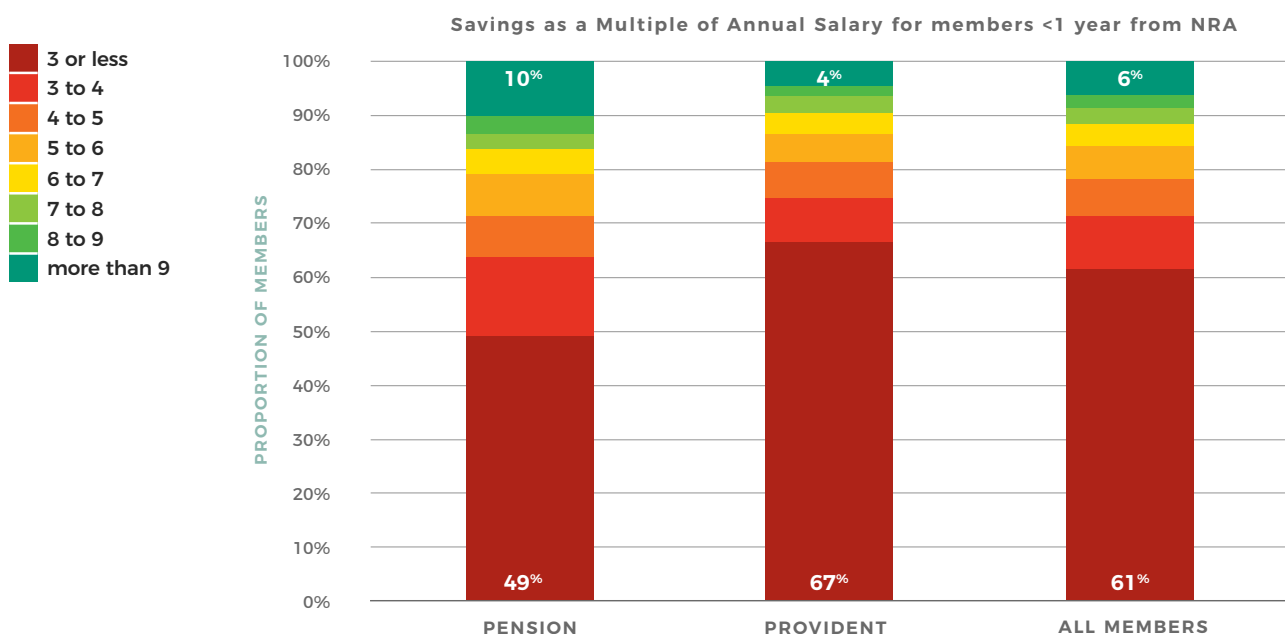
This sample consists of:

- Pension fund members: 7 651
- Provident fund members: 15 725

There are different groups of members with different NRAs and the tables in this section group members according to their schemes' NRA.

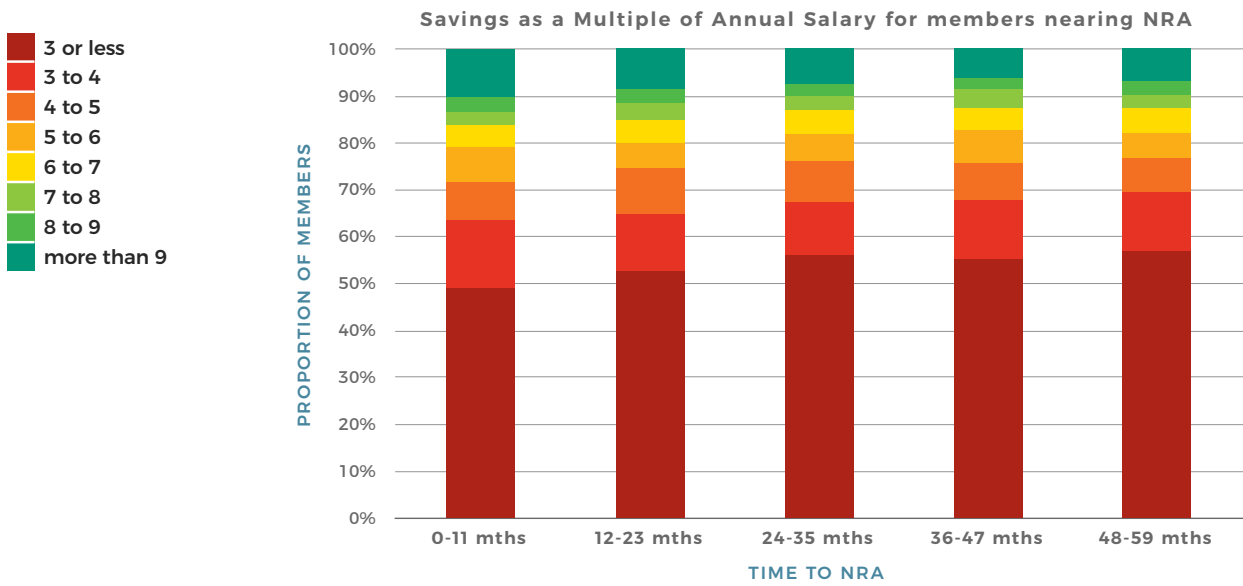
Graph 6a shows those members who are very close to retirement (within 12 months of NRA) aggregated across both pension and provident funds to get a sense of their overall retirement outcomes.

Graph 6a: Multiples of annual salary for members within 12 months of NRA (All members)

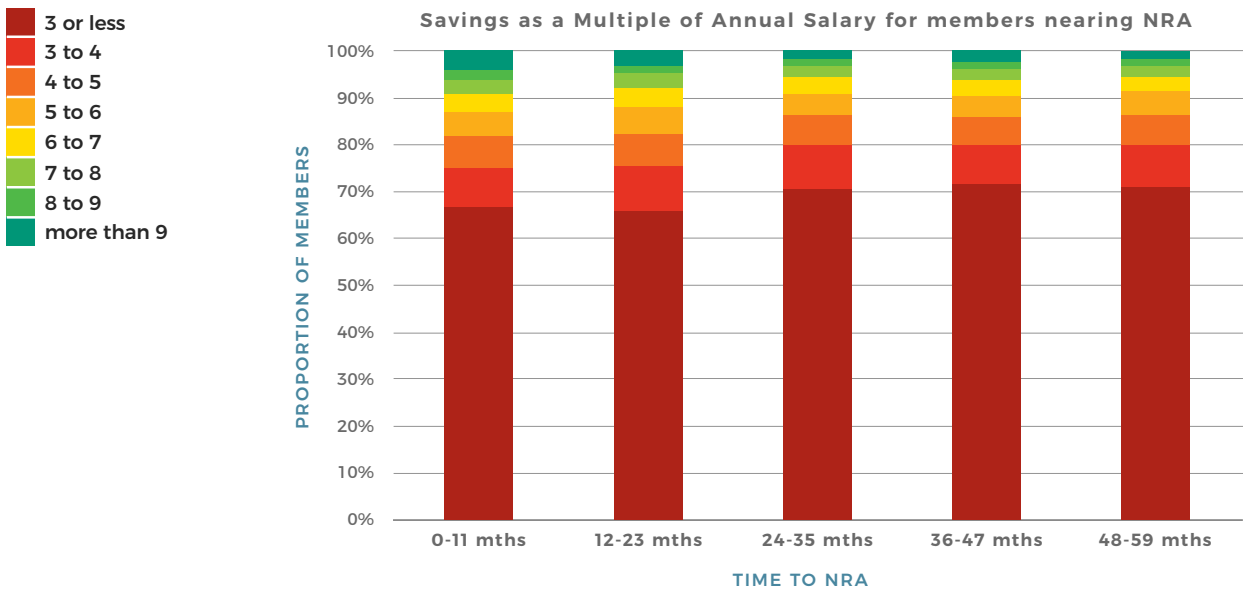


Graphs 6b and 6c show a breakdown of members within five years of NRA based on different levels of MAS. The first bar shows all members who are within 12 months of NRA. Dark red bars indicate the proportion with savings of less than three times their annual salary. The colours progress upwards and dark green shows the proportion with nine times or more their annual salary.

Graph 6b: Multiples of annual salary for members within 5 years of NRA (pension funds)



Graph 6c: Multiples of annual salary for members within 5 years of NRA (provident funds)



INTERESTING INSIGHTS

- **More than half of all members within 5 years of NRA have less than 3 times their annual salary in their retirement funds.** Against a target MAS of 9 – 12 times (depending on NRA, the type of annuity, gender and marital status) they are thus able to afford a pension of no more than 22% of their pensionable salary.
- Provident fund members, in accordance with other observations, have lower levels of MAS than pension fund members across most NRA categories.
- **Only 10% of pension fund members and 4% of provident fund members who are within 12 months of NRA have a MAS of at least nine,** which is broadly the level required for a replacement ratio of 70%. **Note:** This ignores factors like gender (females need slightly more capital for the same pension), NRA (lower NRAs mean more capital is required for the same pension), type of annuity (which affects the level of monthly pension received) as well as savings outside of the fund.
- Overall, only **6% of members within 12 months of NRA have an MAS of at least nine.** Although this single statistic does not take into account the impact of all of the factors listed above, it does broadly corroborate the oft-quoted statistic that only 6% of South Africans can afford to retire comfortably.

Note: These figures ignore savings members may have outside their current retirement fund.

Table 6: Number of members according to scheme size

Table 6 shows the breakdown of all schemes based on the number of members.

Employer Scheme Size	Number of Members	Number of Schemes	
		Pension	Provident
S	<100	1 272	4 403
M	100 - 999	185	427
L	1 000 - 1 999	5	20
XL	>= 2 000	7	17

Another interesting finding is that the size of the scheme to which the members belongs matters.

Tables 7a, 7b, 7d and 7e show the average MAS for older age groups based on the size of scheme.

Table 7a: Multiples of annual salary by size of employer (pension funds) for females

		Size of scheme			
		S	M	L	XL
Age of member	50	1.2	1.5	2.3	3.5
	51	1.0	1.4	2.7	3.5
	52	1.1	1.6	1.7	3.8
	53	1.3	1.8	2.5	4.0
	54	1.4	1.9	3.9	4.6
	55	1.3	2.0	3.5	4.3
	56	1.6	2.2	3.4	5.0
	57	1.6	2.0	3.0	4.6
	58	1.6	2.2	2.2	5.2
	59	1.7	2.3	3.2	6.0
	60	1.8	2.4	4.9	5.9
	61	1.7	2.5	1.0	6.6
	62	1.9	2.8	1.1	6.0
	63	2.0	2.5	8.1	
	64	1.9	2.6	3.5	

Table 7b: Multiples of annual salary by size of employer (pension funds) for males

		Size of scheme			
		S	M	L	XL
Age of member	50	1.2	1.8	2.2	3.3
	51	1.2	1.8	2.1	3.4
	52	1.4	1.9	2.7	3.8
	53	1.5	2.2	2.8	3.8
	54	1.6	2.4	4.1	4.2
	55	1.5	2.1	2.2	4.3
	56	1.5	2.5	3.0	4.5
	57	1.7	2.3	3.1	4.2
	58	1.7	2.6	4.2	4.2
	59	2.4	2.9	4.6	5.2
	60	2.0	3.0	5.5	5.2
	61	2.0	3.6	3.7	6.9
	62	2.4	3.3	5.4	7.6
	63	2.4	2.9	8.7	7.0
	64	2.6	3.6	1.4	

Table 7c: Multiples of annual salary by size of employer (provident funds) for females

		Size of scheme			
		S	M	L	XL
Age of member	50	0.9	1.1	1.4	1.7
	51	1.0	1.1	1.3	1.9
	52	0.9	1.2	1.5	2.1
	53	1.0	1.4	1.6	2.1
	54	1.1	1.4	1.7	2.4
	55	1.1	1.5	1.9	2.6
	56	1.1	1.7	2.1	2.7
	57	1.3	1.5	2.2	2.8
	58	1.3	1.6	1.9	3.4
	59	1.3	1.8	2.5	3.5
	60	1.3	2.0	2.6	4.1
	61	1.3	1.7	2.2	4.8
	62	1.5	1.7	2.3	4.8
	63	2.0	1.7	3.2	3.1
	64	1.9	2.3	1.9	3.5

Table 7d: Multiples of annual salary by size of employer (provident funds) for males

		Size of scheme			
		S	M	L	XL
Age of member	50	0.8	1.1	1.5	2.3
	51	0.9	1.1	1.7	2.4
	52	1.0	1.2	1.7	2.6
	53	1.0	1.2	2.0	2.8
	54	1.0	1.3	2.4	2.9
	55	1.1	1.5	2.5	3.0
	56	1.2	1.4	2.5	3.3
	57	1.2	1.5	2.8	3.2
	58	1.2	1.7	2.7	3.6
	59	1.3	1.7	3.5	3.8
	60	1.4	1.8	2.9	4.2
	61	1.3	1.9	3.4	4.6
	62	1.2	1.7	2.4	4.6
	63	1.5	1.7	4.2	4.3
	64	1.4	2.4	4.4	4.1

The key driver of the differences in multiples across schemes of different sizes is the level of net contributions.

Table 8a: Contribution % by salary band and size of scheme (pension funds)

Salary Band	Size of employer			
	S	M	L	XL
1	8.9%	9.5%	10.1%	14.7%
2	10.4%	12.1%	13.5%	15.3%
3	11.8%	13.3%	13.3%	15.1%
4	12.4%	13.3%	12.9%	14.2%
5	11.8%	12.8%	11.5%	14.1%

Table 8b: Contribution % by salary band and size of scheme (provident funds)

Salary Band	Size of employer			
	S	M	L	XL
1	8.1%	8.9%	12.2%	10.1%
2	9.2%	11.7%	14.1%	16.2%
3	9.7%	12.4%	13.2%	14.9%
4	10.4%	12.1%	13.3%	15.7%
5	11.8%	12.8%	11.5%	14.1%

INTERESTING INSIGHTS

- **Larger schemes enable members to accumulate higher levels of savings in relation to their salary.** As an example, the average 60-year-old male member of a scheme with more than 2 000 members is able to accumulate savings that are more than 3 times greater than that of the equivalent member in a scheme with under 100 members.
- This pattern of higher accumulation of savings in proportion to the size of the scheme is repeated for both males and females over 50 in pension and provident funds.
- The main driver of this higher accumulation of savings, relative to salary, is higher contributions, although other features of the design of the retirement fund benefits may also play a role.

The the average 60-year-old male member of a scheme with more than 2 000 members is able to accumulate savings that are more than 3 times greater than that of the equivalent member in a scheme with under 100 members.



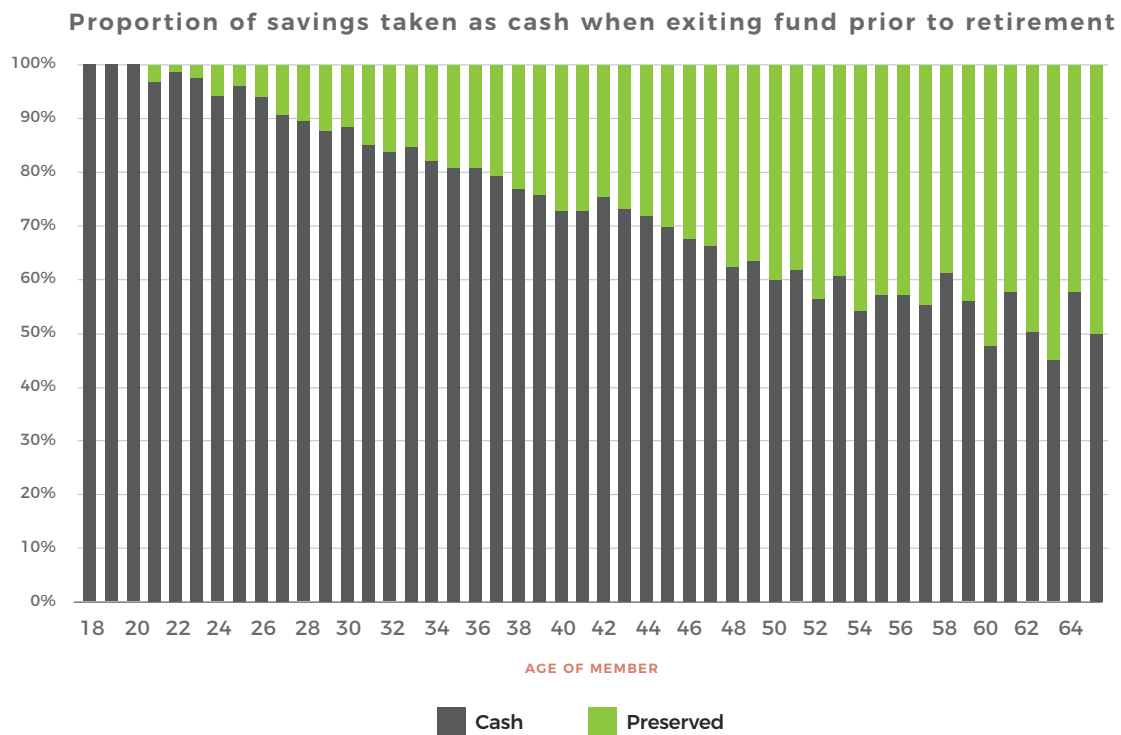
7. MEMBERS EXITING

Members have to make critical decisions at the time they leave a retirement fund, either before retirement or at retirement. Good decisions regarding what to do with the benefits that have accrued to them will play a vital role in their future financial wellbeing.

One of the key reasons why members fail to accumulate enough savings to ensure that they are able to maintain their standard of living during retirement is a lack of preservation when changing jobs.

Graph 7 shows what members do with their savings when they withdraw from a fund due to resignation or retrenchment.

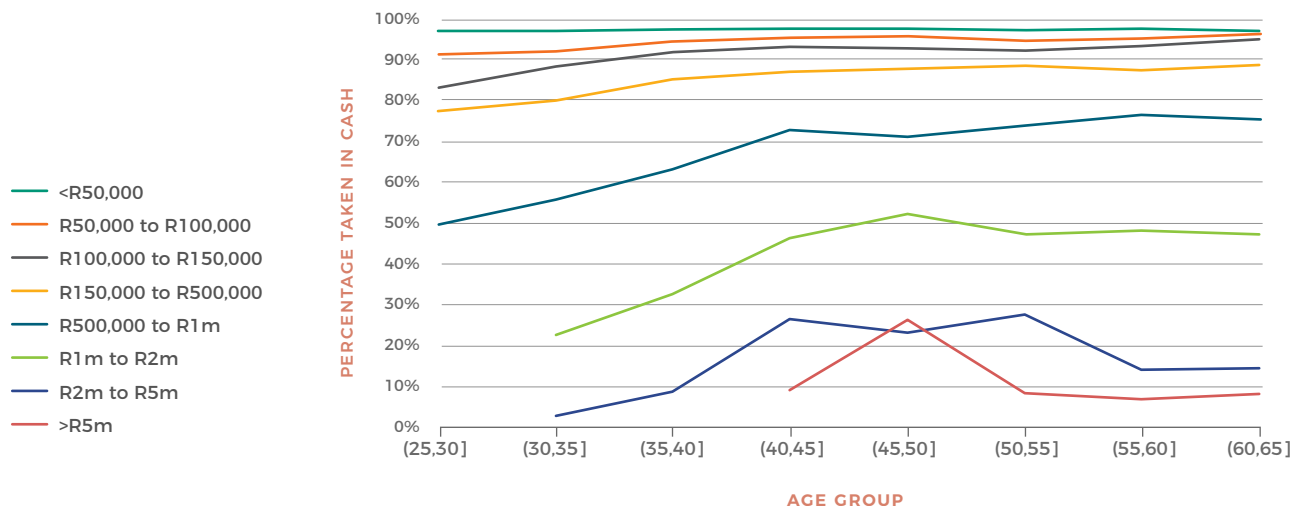
Graph 7: Value withdrawn from funds on exit prior to retirement



Graph 8 provides a further breakdown of members' choices between cash and preservation taking into account the size of the benefit due to them. Each coloured line shows the proportion taken in cash for a different benefit size.

Graph 8: Value withdrawn from funds on exit prior to retirement

Proportion of benefit in cash on exit prior to retirement by age and benefit value



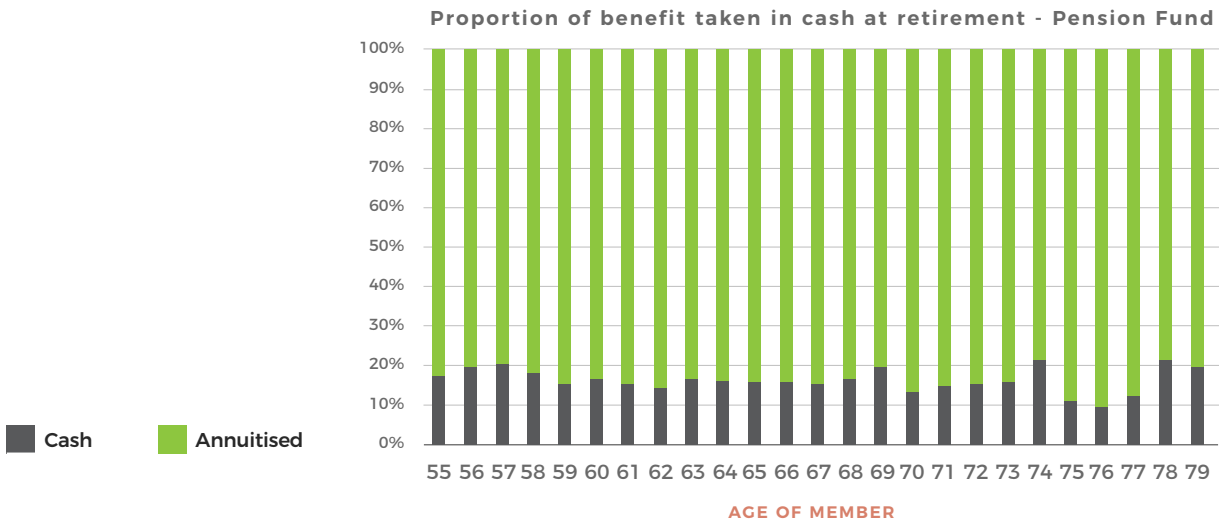
INTERESTING INSIGHTS

- **Preservation rates are extremely low for young members.** Those under age 30 take out more than 90% of their savings in cash when changing jobs.
- Preservation improves with age although it remains very low. Somewhat surprisingly, **even members who are in their fifties take 50% to 60% of their savings out of their scheme in cash** despite having very little time until they reach retirement.
- Rates of preservation are strongly linked to the size of the benefit due to the member. Small values (under R50 000) are not preserved and this applies across all age groups. This probably reflects the fact that lower-income earners have an immediate need for additional funds, which overshadows the need to provide for their retirement. For higher-income earners, the small size of the benefit may make preservation appear unnecessary or the hassle of finding a solution, possibly getting advice, and fees might also be a deterrent. If they are able to take out the money tax-free this can also seem like a positive to members.
- It is encouraging to see **that preservation rates of higher values are greater across all ages.** Preservation of benefit values above R2 million is higher than 70%.

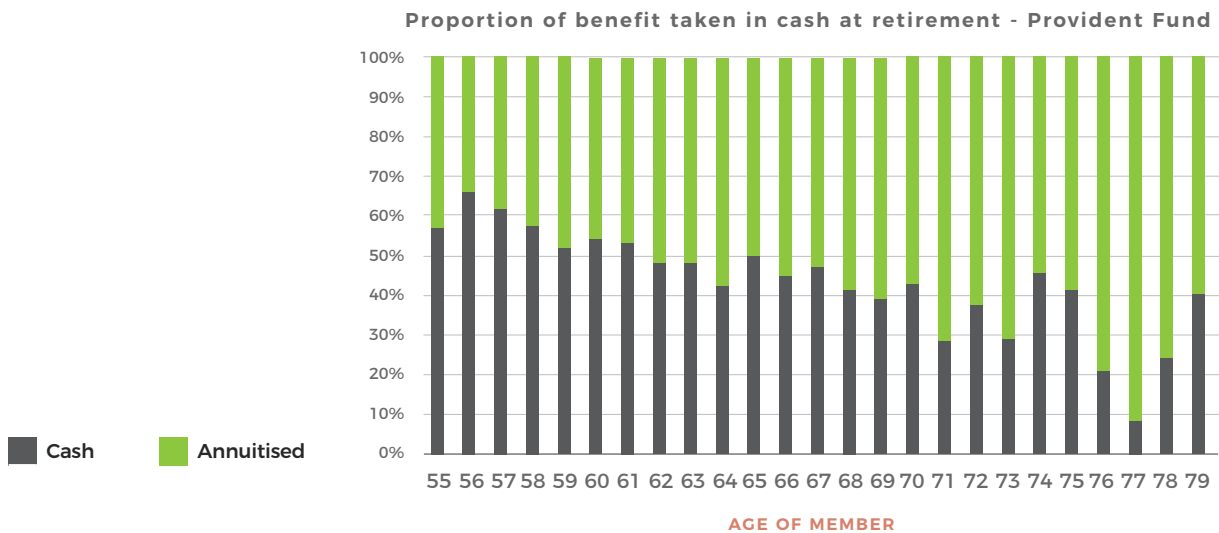
Decisions taken at the point of retirement are just as important as those before retirement.

Graphs 9a and 9b show the proportion of retirement savings taken as a lump sum versus the proportion converted into a monthly annuity.

Graph 9a: Proportion of benefit taken in cash at retirement (pension funds)



Graph 9b: Proportion of benefit taken in cash at retirement (provident funds)



INTERESTING INSIGHTS

- As expected, the proportion of savings converted to an annuity is significantly higher for pension fund members than for provident fund members. This is not solely because pension fund members choose to preserve their savings; they are required by law to annuitise at least two thirds of their capital.
- **It appears that pension fund members cash out almost the full amount they are allowed to.** Members with higher values are likely to take a smaller amount as a lump sum because of the tax implications and the fact that they require an income more than a lump sum.
- **In the case of provident fund members there is roughly a 50:50 split between the average amount taken as a lump sum and the amount converted to a monthly pension.** The proportion taken as a lump sum will decline over time as a result of the changes to provident funds introduced in 2019.

8. CONCLUSION



The challenge of saving for retirement is one that impacts employers of all types, sizes and industries and all their employees, irrespective of their background or income level.

Old Mutual Corporate Consultants conducted this study to further our understanding of the retirement savings challenges faced by South Africans. It also highlighted the success stories as a reminder that a financially secure retirement is achievable although it might not be easy. In this regard, umbrella funds are an increasingly important vehicle as custodians of the retirement savings of many South Africans.

It is clear from the results that there is much work to be done but we are encouraged by the fact that there are many employers who are doing a very good job of delivering sound retirement benefits for their employees.

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