



Savings

A reminder of what we said before and what has happened the past 18 months?

Rian le Roux



Why save?

Households

- For future big expenses & retirement

Companies

- To finance replacement & expansion

Government

- To finance physical & social infrastructure

As a nation

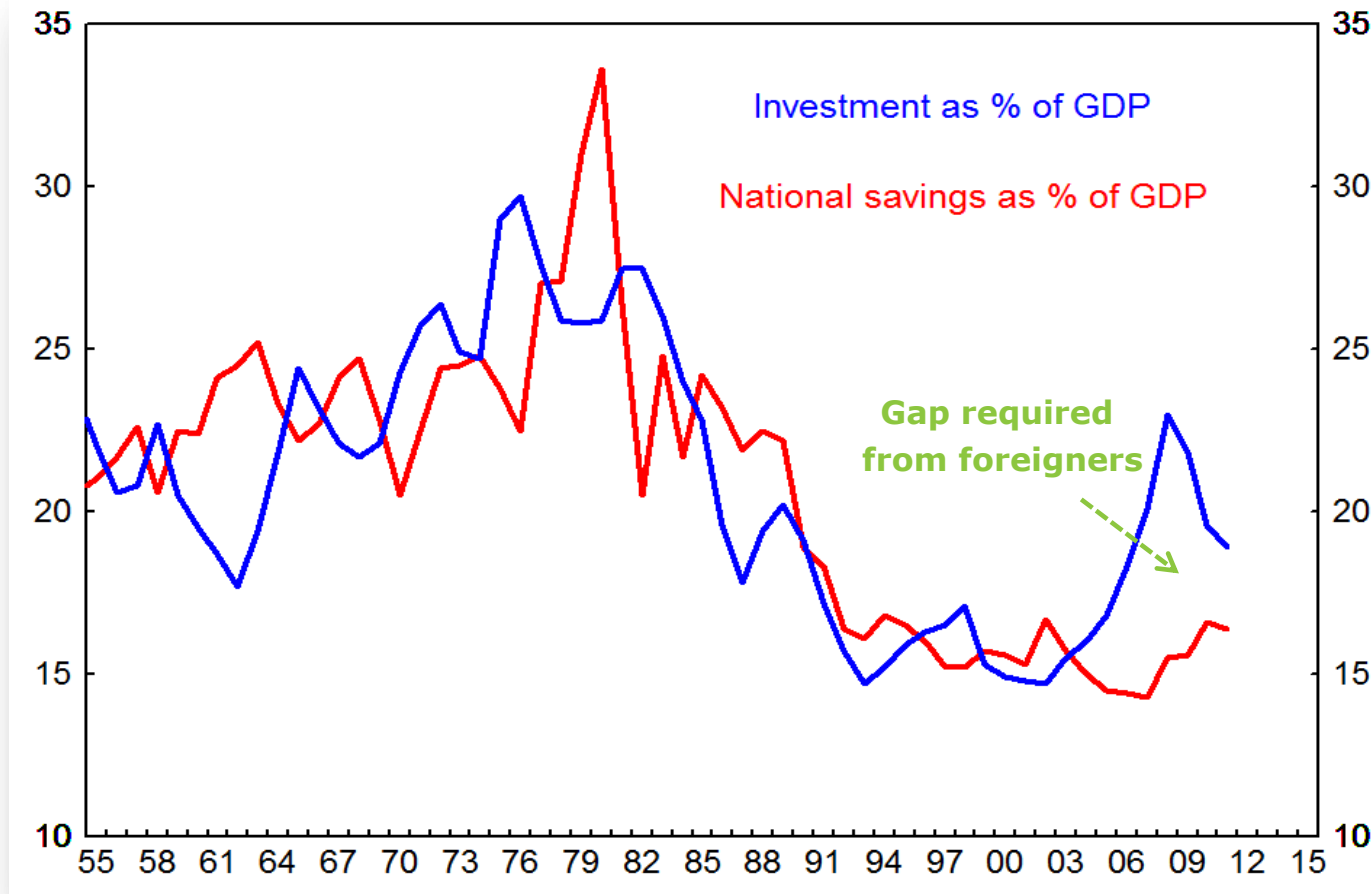
- To not be reliant on foreigners for financing investment

What happens if we save too little?

- The above says it all
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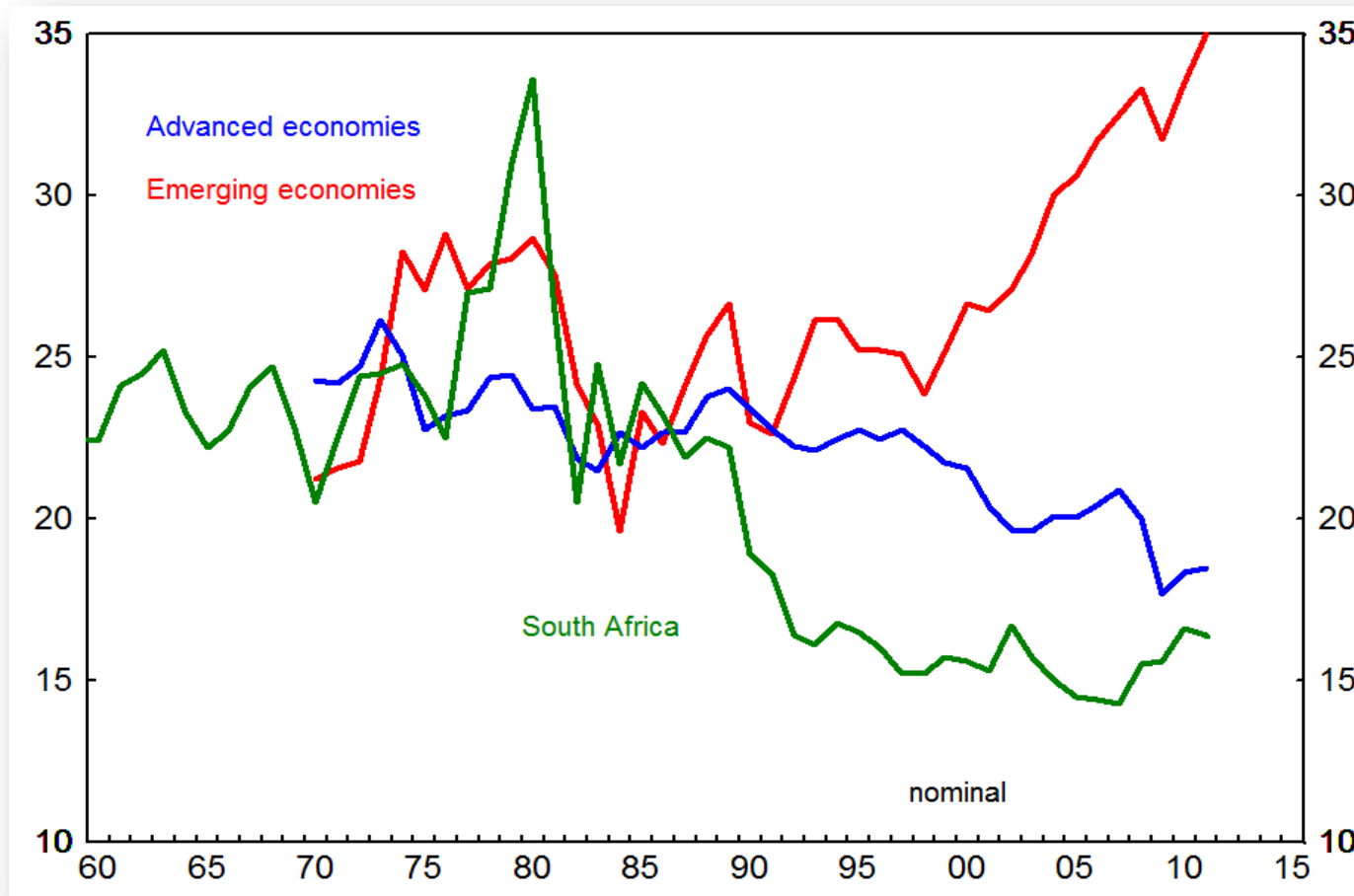
SA'S NATIONAL INVESTMENT & SAVINGS

Gap is closing, but from the wrong direction



SAVINGS AS % OF NOMINAL GDP

SA's savings performance is very poor



WHY SAVINGS NEED URGENT ATTENTION: Our 2010 message

Global economic crisis of 2008 has changed the world and will affect SA too:

- Slower global economic growth going forward
- Lower real investment returns going forward
- Dependency ratios will rise globally on weak employment growth
- Governments are financially in trouble almost everywhere
- DB pension funds are in trouble most everywhere (esp public sector)
- DC members may well be very under-provided for retirement

So...

- Globally pension & other social benefits are being cut back
- Globally retirement ages being lifted (Funds & Co's/Govt's can't cope)
 - I.e. people will increasingly be forced to provide for own retirement
- SA will not escape these trends

WHY SAVINGS NEED URGENT ATTENTION: What has changed?

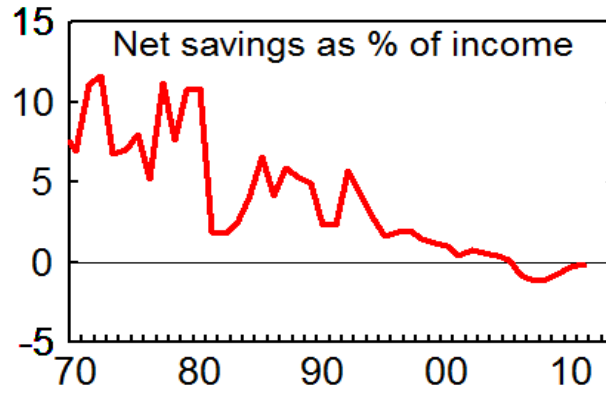
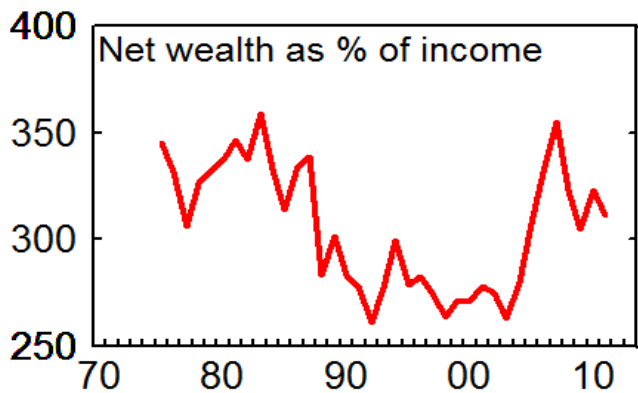
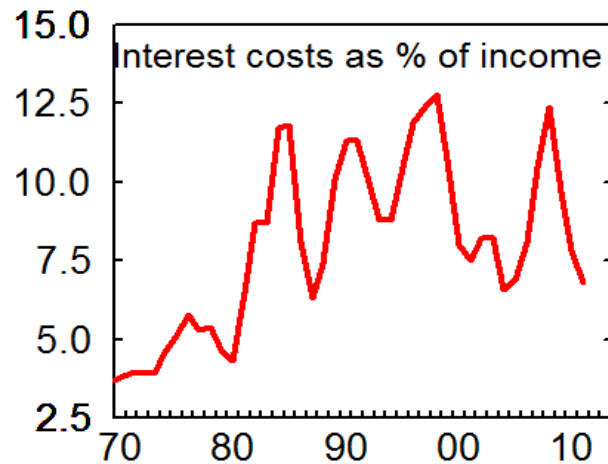
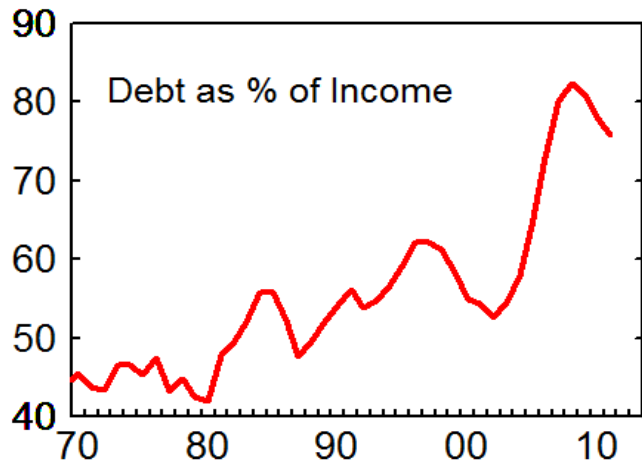
Global economic crisis of 2008 has changed the world and will affect SA too:

- | | |
|---|-----------|
| ■ Slower global economic growth going forward | Worse |
| ■ Lower real investment returns going forward | Unchanged |
| ■ Dependency ratios will rise globally on weak employment growth | Worsening |
| ■ Governments are financially in trouble almost everywhere | Worsening |
| ■ DB pension funds are in trouble most everywhere (esp public sector) | Same |
| ■ DC members may well be very under-provided for retirement | Same |

So...

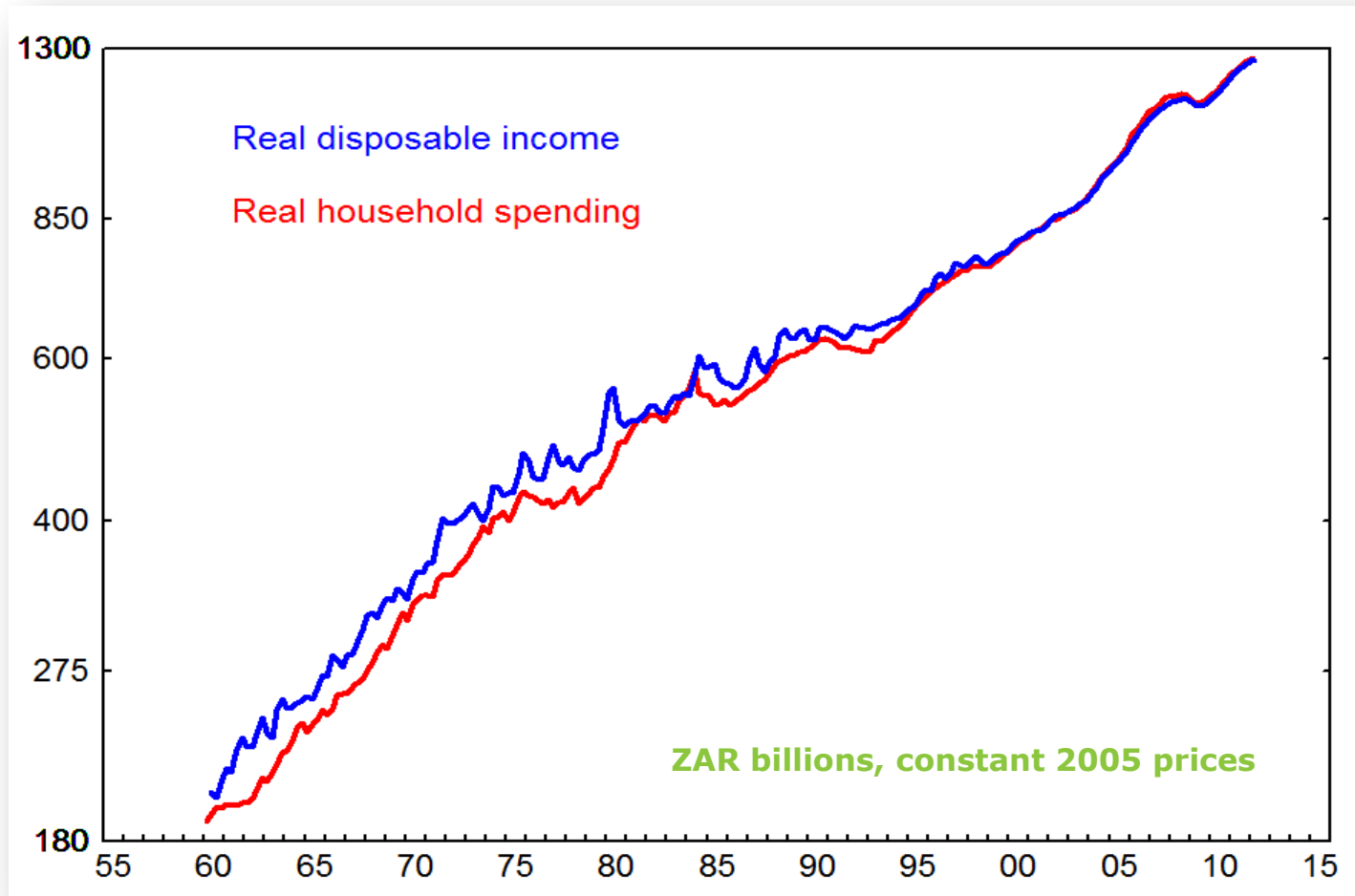
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|--|-----------|
| ■ Globally pension & other social benefits are being cut back | Happening |
| ■ Globally retirement ages being lifted (Funds & Co's/Govt's can't cope) | Happening |
| – I.e. people will increasingly be forced to provide for own retirement | Happening |
| ■ SA will not escape these trends | Happening |

HOUSEHOLD FINANCES: A mixed picture



SOUTH AFRICANS SPEND EVERY CENT THEY EARN OR GET

The penny about needing to save more has still not dropped



SA households and savings

Only 2 things drive savings

- Ability to save (i.e. need sufficient income)
- Willingness to save (income available, choose to save or not)

SA situation

- Many simply do not have ability to save: will rely on Govt/family aid
- But, many do have ability to save, but choose not to or simply fail to realise that they need to save more (*I suspect the latter is the case for many*)
- SA needs to have more taxpayers & fewer grant receivers (current situation unsustainable over the longer term) – *implies growth-friendly macro reforms*

For those who can save...

SA households save way too little (& make poor investment decisions):

- For future liabilities: kids' education, depreciation of residence, etc
- For retirement (most discover this with a shock, far too late)
- Discretionary savings go into low yielding investments (eg. MM funds)
- DC members:
 - Largely oblivious as to whether their retirement provision is sufficient
 - I suspect most are *badly* under-provided – only ±6% are 'OK'
- DB Members
 - Largely oblivious as to whether their retirement provision is sufficient
 - Run the risk of sub-inflation annual adjustments

Many, many will discover 3 yrs into retirement they could not really afford the luxuries of the previous 25 yrs (4 x 4, overseas trips, etc)

Pension ‘determinants’

Defined Contribution Pension Funds:

- How long you save for
- How much you save (in pension fund & in other forms) relative to your targeted retirement income need
- The investment return on the savings

Defined Benefit Pension Funds

- The word of your employer
 - The investment return on the fund will likely determine whether you get any pension increases during retirement
-

Average total returns (% p.a.)

1960 – H1 2012

Sector	10 years 60-69 (%)	10 years 70-79 (%)	10 years 80-89 (%)	10 years 90-99 (%)	13 years 00-12* (%)	53 Years 60-12* (%)	What we expect* (%)
Shares	15.8	21.3	26.7	16.6	16.5	19.2	10.0
LT Gilts	4.5	6.8	11.8	19.5	15.2	11.8	7.5
Cash	4.4	8.2	14.8	16.2	9.1	10.5	5.5
Inflation	2.5	10.3	14.7	9.4	6.0	8.4	5.5

*** Our estimates**

Balanced fund of 60:30:10

Over 53 years: 16.1% vs 8½% inflation = 7.6% real

Going forward: 8.8% vs 5½% inflation = 3.3% real

Where to invest?

Return OF my money vs return ON my money

Main themes considered in constructing portfolios

1 Scaling back Governments

- Low growth for an extended period
- Low interest rates for an extended period

2 Low return world

- Cash is trash & big rerating in equity markets unlikely, neither strong earnings growth

3 Quest for yield

- Local bonds, good quality credit & good divvie paying equities preferred

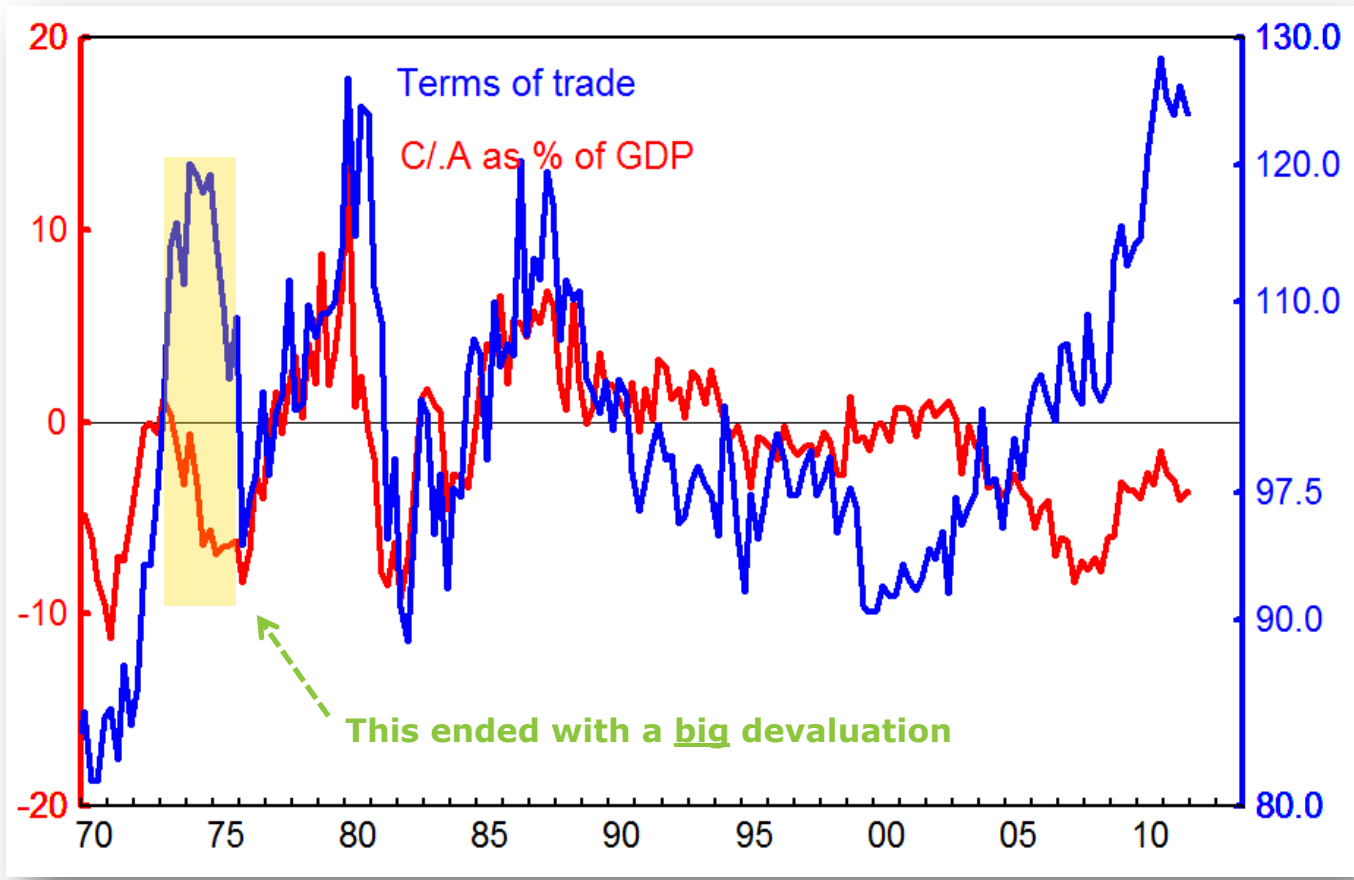
5 Emerging markets

- Better growth prospects than developed world

6. Consider diversification on Rand risk

CURRENT ACCOUNT AT SOME RISK

Sizeable C/.A deficit with very high terms of trade

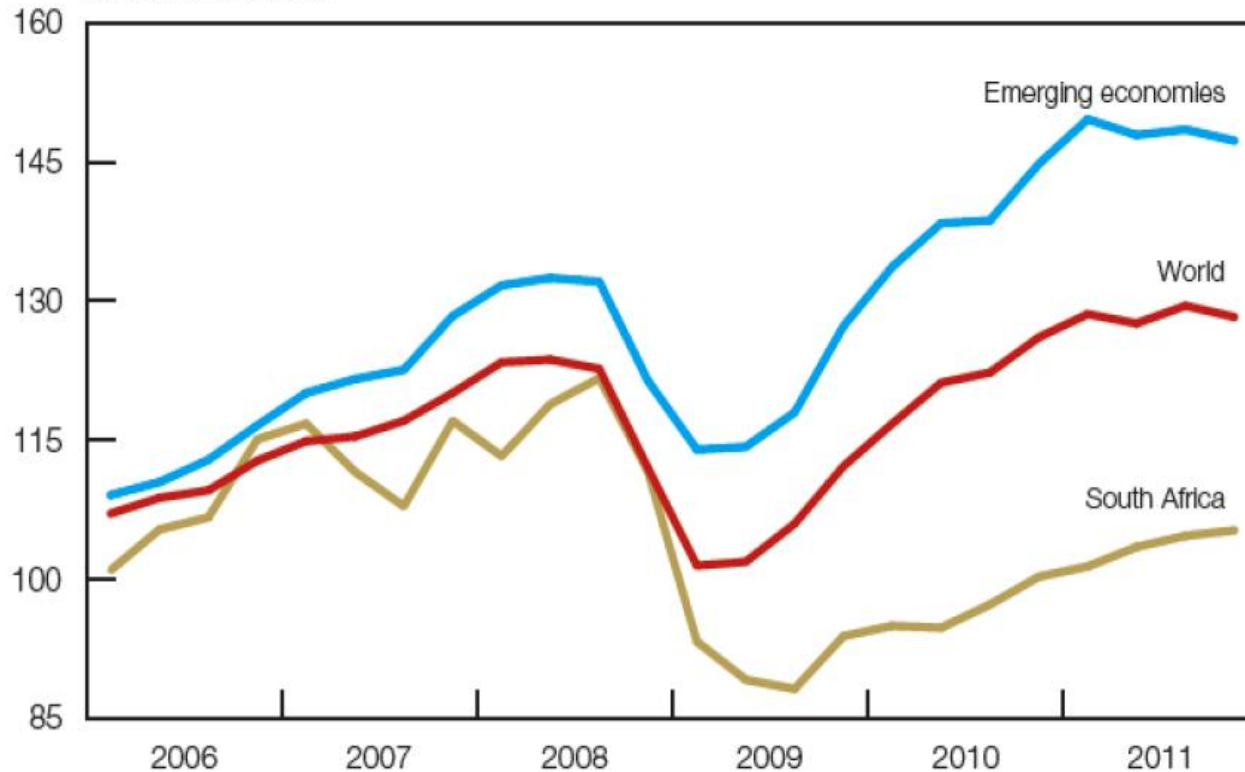


Source: Omigsa

SA clearly has a serious competitiveness problem

Figure 10: Volume of merchandise exports

Indices: 2005 = 100



Source: SARB

HOW MUCH MUST YOU SAVE?

A guide

35 years worked			
% saved	Inv. Return	% of pension taken	Pension as % of last salary
13	9.0	6.5	32
30	9.0	6.5	75
13	13.5	6.5	75
13	9.0	15.0	75
17.5	12.0	6.5	75

- All examples above assume 9% p.a. salary gain & 6% p.a. inflation
- Realistic Investment Returns going forward ± 8% - 10% p.a. (vs 16% previous 53 years)

Message?

- Can't rely on high investment returns to build your capital, people will have to save far more

Summary and Conclusions

SA'ans save way too little & make poor investment decisions

So, they are ill-prepared for retirement, without knowing it

It will be very difficult to rectify:

- Ability to save inhibited by various factors
- Investment returns will be lower
- Large percentage of people already 'far behind'

Remember: In retirement you need a growing income

Some wise words someone once told me:

- The biggest present you can give your children is to never become dependent on them (retirement provision)
 - The biggest present you can give yourself is to make your children independent of you (education)
-

What should you do NOW?

A few things

- FULLY understand your retirement provisioning (DB, DC funds or self-provided)
- FULLY understand your future liabilities (retirement, 'big asset' replacements, health, children's studies, caring for parents and/or children, inflation, etc)
- FULLY consider ALL the risks you face (do NOT fool yourself)
- Get a consultant to advise you as to how much you must save

Remember: Time is your best friend when it comes to capital building

- R250pm invested in Investors Fund since Jan 1990 = R469k today
(you would have invested a total of R68k)
- If you increased the payment by 7½% every year in Jan, you would have invested R164k and it would be worth R770k today



THANK YOU



Regulatory Information

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