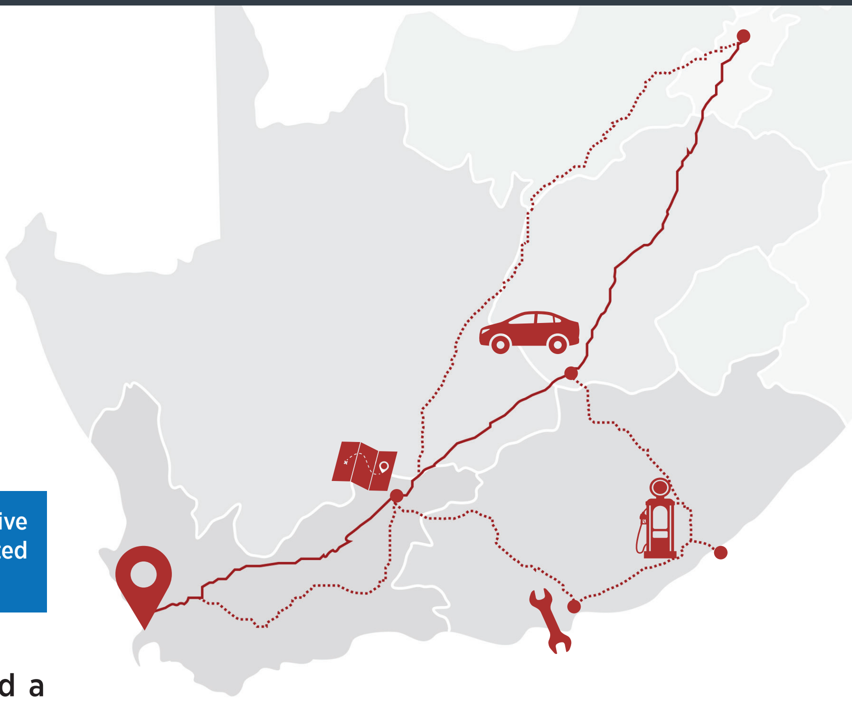
Solutions for
Retirement • Actuarial • Investments • Health • Wealth

SIMEKA

member of Sanlam group

SAVING FOR RETIREMENT IS LIKE PLANNING A ROAD TRIP.

Step 1: You must have a destination in mind, else you won't know where you'll end up



Few members are able to project how much money they will need at retirement to buy a pension that will provide them with a comfortable income for the rest of their lives.

A useful way to determine how much money you will need, is to aim to replace a percentage of your salary to maintain your current standard of living in retirement. This percentage of salary is called your replacement ratio (RR). A good guide is to try and aim for a RR of between 70% - 75% of your salary just before you retire.

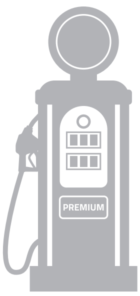
According to the Sanlam Benchmark® Survey only one in five retirees only found out about the value of their accumulated savings three years before retirement!

Step 2: You must have a reliable car and a roadmap to get you to your destination.

Your retirement fund could be seen as the reliable car that can get you to your destination. However, without a roadmap, you could end up getting lost!

Likewise, your retirement fund has to provide you with a suitable structure to help you reach your retirement goal. For this reason, many funds have implemented various default options to assist members to steer their way through the various fund choices in respect of contribution rates, investment portfolios and even risk benefits. By choosing your fund's default options, you don't have to make the difficult decisions yourself.

The Sanlam Benchmark® Survey showed that 84% of members are invested in default investment options.



Step 3: You must fuel up to reach your destination.

As the driver of the car, you must ensure that you fill up with enough petrol and that your car has enough oil in the engine, to make sure that you reach your destination.

There are two main factors which will ensure that you reach your retirement goal:

One is the contributions you make to your retirement fund, i.e. the total contribution percentage that you and your employer contribute towards retirement savings each month. The more you contribute, the better your chance of reaching your retirement goal. While many funds cater for flexible contributions, where they do not, they more than likely cater for additional voluntary contributions (AVCs). Making a monthly AVC is a great way to help you save more for retirement.

The other is the investment portfolio(s) that you invest your contributions in. The investment portfolio you choose should be appropriate for your needs; for example, young members should consider the high growth (and riskier) investment options with a view to growing their money while they still have a long-term horizon to retirement, whereas older members, being closer to retirement, would be focusing on protecting their accumulated savings.

Did you know

that if you contribute

- 15.5% net (i.e. excluding the administration fee and the cost of risk benefits towards retirement); and you invest it in an aggressive (high growth with high risk) portfolio which provides an investment return of at least CPI + 5% (inflation plus 5%) per year;
- for a period of 40 years,
- you should be able to achieve a RR of between 70% and

Step 4: You must maintain and service your car.

While on your way to retirement, you should stop and check whether you are still on track. Many funds provide members with a Retirement Projection Statement each year which shows them what their replacement ratio (RR) is. Such a Retirement Projection Statement is an easy way for members to gauge whether they are on track with their retirement plan or not.

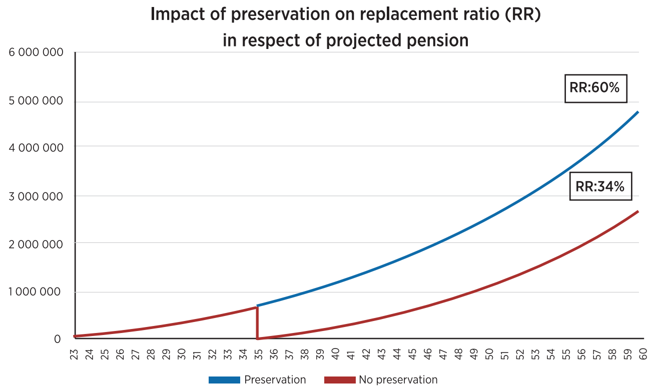
Where a member's RR is lower than the suggested 70% - 75%, the member would need to consider and be able to take action before it is too late.

The 2016 Sanlam Benchmark® Survey revealed that only 20% of pensioners have sufficient savings to maintain their current standard of living in retirement.

Step 5: Keep driving to your goal.

When you change jobs, you should avoid cashing in your retirement benefit and spending it at that point. When leaving a company your retirement savings should be preserved as it forms part of your personal retirement plan. Using your retirement savings to settle short-term debt, pay for living expenses between jobs, or to finance home improvements, means that you will have to start saving for retirement from scratch, sometimes at a very late age, which will not get you to your retirement goal.!

The 2016 Sanlam Benchmark® Survey shows that more than two-thirds of pensioners indicated that they did not preserve their savings when changing jobs. 48% of those who withdrew their retirement savings said that they regretted doing so later in life!



The graph shows you the impact that preserving one's benefit can have on one's RR in respect of your projected pension at retirement, when changing jobs.

Step 6: Reaching your goal.

Reaching your retirement age and your retirement goal will mean that you can continue with your current standard of living in retirement. However, if you are nearing retirement and it does not look like you will reach your retirement goal just yet, you still have some options available to you.

Since 1 March 2015, you have the option of leaving your money in your retirement fund when you retire from service at your employer. This is called "postponed or phased retirement". It allows you to continue to grow your retirement benefit (without making additional contributions) while you embark on a second career or job to cover your living expenses, until such time that your retirement benefit has grown sufficiently and you have saved enough money to finally retire.

Having said that, although a driver is responsible for ensuring their car is serviced and maintained, this does not imply that they need to know every detail involved. Drivers cannot be expected to have the same level of understanding of their cars as a mechanic does. Similarly, in the retirement planning journey, members cannot be expected to know and understand everything about retirement funds and the choices on offer to them - it is therefore important that the fund and the employer have good default options in place. This is where the retirement funds, employers and their consultants still play an essential and collaborative role in ensuring good retirement outcomes for their retirement fund members.

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