10X South African **Retirement Reality Report**

2018

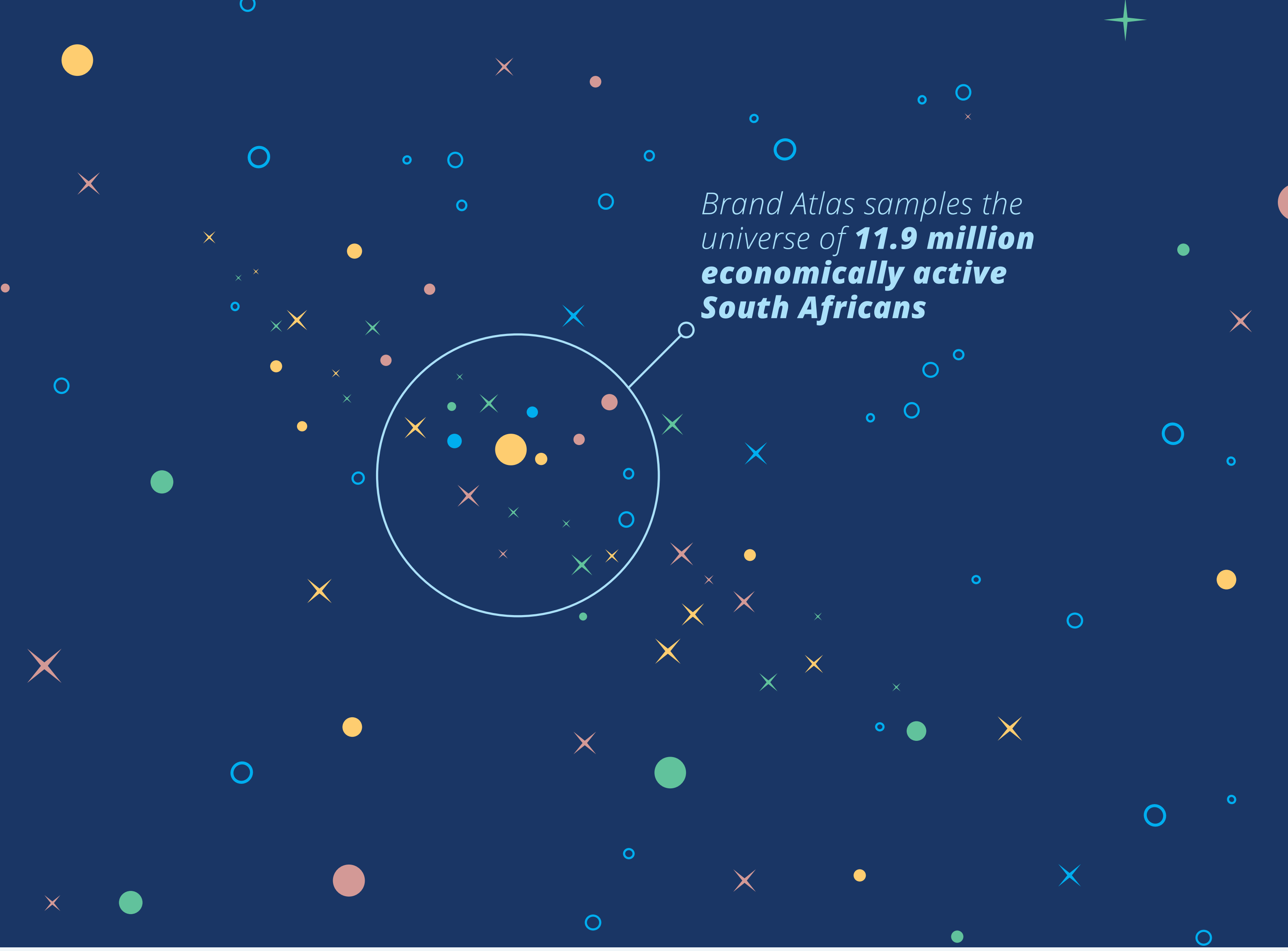
Are South Africans preparing and prepared for retirement? This is the matter we probe in the inaugural annual 10X Investments report on retirement readiness in South Africa, based on the results of our Retirement Reality Survey.

It will come as no surprise that the survey paints a bleak picture in this regard: South Africa is sitting on a retirement timebomb, with only six percent of the country's population on track to retire comfortably, according to National Treasury. There is no evidence to suggest that the crisis in retirement planning in the country has improved at all in the last 20 years.

The report aims to serve both as an analytical tool and a descriptive interpretation of the current local retirement landscape. 10X hopes the report will draw attention to the problem, creating an understanding of its causes and opening a discussion on the steps necessary to improve the situation.

As the last 20 years have shown, unless we find and take those steps – at the individual, the corporate and the legislative level – this retirement prognosis will not improve, and more likely, even deteriorate.

There is truth in the adage that you cannot manage what you cannot measure. 10X hopes that collecting and analysing data on the topic, monitoring progress from year to year, and reporting the findings widely will provide the impetus to re-think our processes, and steer South Africans towards a more acceptable retirement readiness.



BRAND ATLAS

In 2017, at the behest of 10X Investments, the well-respected annual Brand Atlas survey of the South African population was expanded to include questions about people's savings and investments habits.

Brand Atlas samples the universe of 11.9 million economically active South Africans as determined by Stats SA (namely those with a monthly income in excess of R7,600) through online completion surveys. All findings, analysis and interpretation within this report by 10X Investments are based on Brand Atlas data.

10X INVESTMENTS

10X Investments, an authorised financial services provider, a licensed retirement fund administrator and investment manager, provides a range of simple, effective, low cost solutions to retirement investors.

The disruptive asset manager relies on index tracking to deliver the returns of the market as a whole.

Fees are a valuable tool for predicting future investment performance and the fees on 10X's retirement annuity are less than half the industry average. 10X invests in a mix of shares, property, bonds and cash to maximise growth and automatically adjust portfolios as savers get closer to retirement to reduce risk. **10X manages several billion rand in private and corporate retirement investment funds.**

A force that changes the fundamental rules of an industry is known as a 10X force because it makes it 10 times harder for the existing players to compete. We thought the name appropriate, given that we are changing the fundamentals of the retirement fund industry. We pronounce it ten-ex, not ten times.

Chapter 1: **Where are you going and how will you get there?**

Most South Africans don't have a plan, or just have a vague outline

How do you feel about your current retirement plan?

Only 7% of those surveyed said they had a proper plan and were executing it. This corroborates the statistic from Treasury that only 6% of South Africans were on course for a decent retirement.

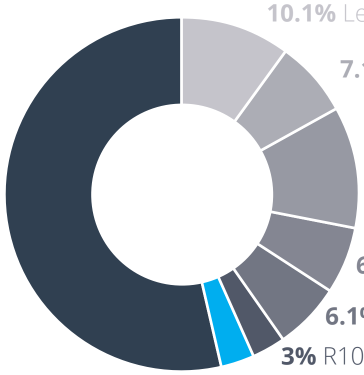
The fact that 41% don't have a plan at all underlines the urgency of the crisis. Another 31% describe themselves as having a "pretty good idea" of what they are doing.

The remaining 21% saw their plan as somewhat vague, indicative of widespread lack of concern and engagement with the topic of retirement planning.

The data suggest that very many South Africans believe that everything will work out in the end. It may do for some, but the many South Africans retirees living in poverty today attest that it doesn't for most.

Few know what is going on in the bigger picture (total savings required)

Expected retirement investment pot worth



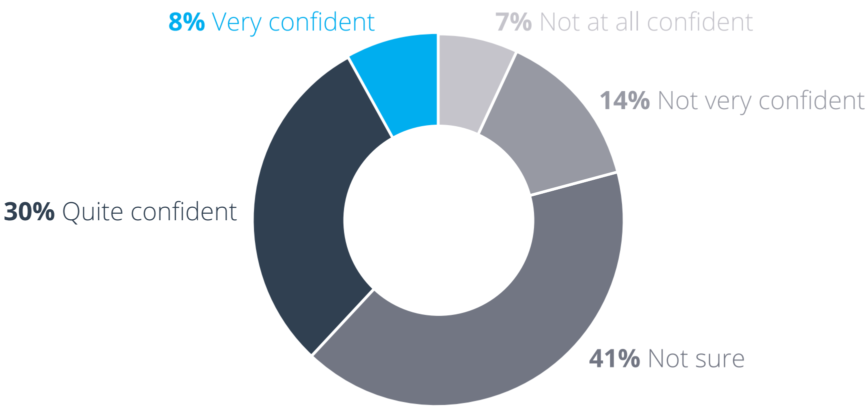
Fewer than 50% of the respondents were aware of how much money they could expect at retirement. That should not be a surprise considering how many people **don't have a retirement plan**, or just a vague outline.

This phenomenon is by no means particular to South Africa. However, considering that the onus is on fund providers to keep savers informed about their savings, there is clearly scope for the industry to do a better job in engaging, informing and educating their clients.

While it may seem too complicated for those of us without financial knowledge, there are only a few factors which have a significant impact on determining how much money savers can expect at retirement. And, thankfully, technology makes doing the actual calculations quite simple.

More confusion at micro level (monthly income needed, how it will be achieved)

Confidence in drawing income each month as per asset and investment value



38% of respondents indicate some level of confidence ("quite confident" to "very confident") when it comes to receiving a monthly income based on their asset and investment value.

21% were not confident ("not very" to "not at all") that they would have enough money at retirement. While this is concerning, the reality is probably significantly higher, given that 53.5% of respondents do not have any idea of what their final pot at retirement will be worth, which means they can't possibly know whether they will be able to draw sufficient income to support their lifestyle in retirement.

10X INVESTMENTS

Replacement ratio

When retirement is reached, financial obligations to maintain your current standard of living are likely to decrease. Take for instance cost savings from no longer having to commute to work (public transport bills, or fuel and wear and tear costs of a car) and higher income tax rebates over the age of 65 and then again over the age of 75.

A reduction in financial obligations means that in retirement, a gross monthly income lower than the gross final salary should sustain one's lifestyle in retirement. The proportion of your final salary required is called your replacement ratio. It can range anywhere from 60% up to 100% of final salary depending on the individual's situation. This determines what monthly income will be required.

In order to know whether you can fund this required income, you will need to have an idea of what your final savings pot will be at retirement.

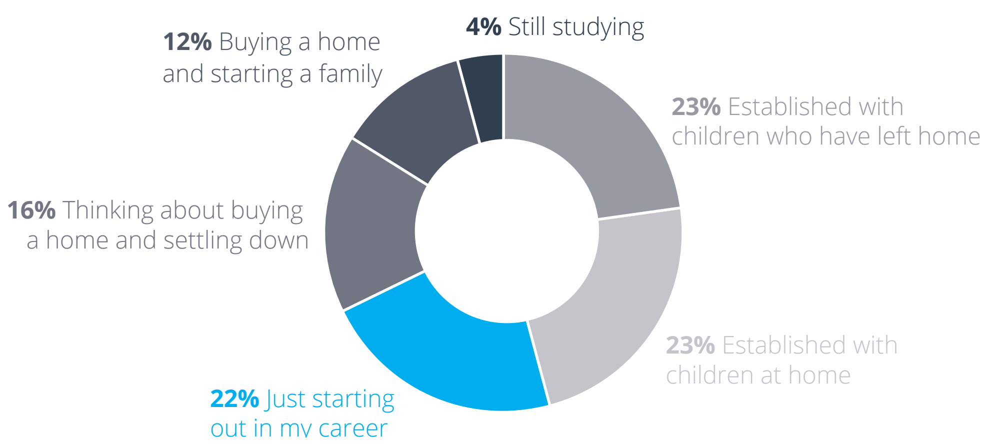
The result from a retirement calculator can tell you whether you are on track to maintain your lifestyle in retirement based on your current saving habits.

The first step is ensuring that investors take the time to understand what position they are in today. They need to also understand what they need to do today to maintain their living standards in retirement. Once the plan has been set it needs to be adhered to, to ensure sufficient income in retirement.

Chapter 2: **Dreams deferred: What might have been**

People are starting very late ...

At what life stage did you begin planning for your retirement?



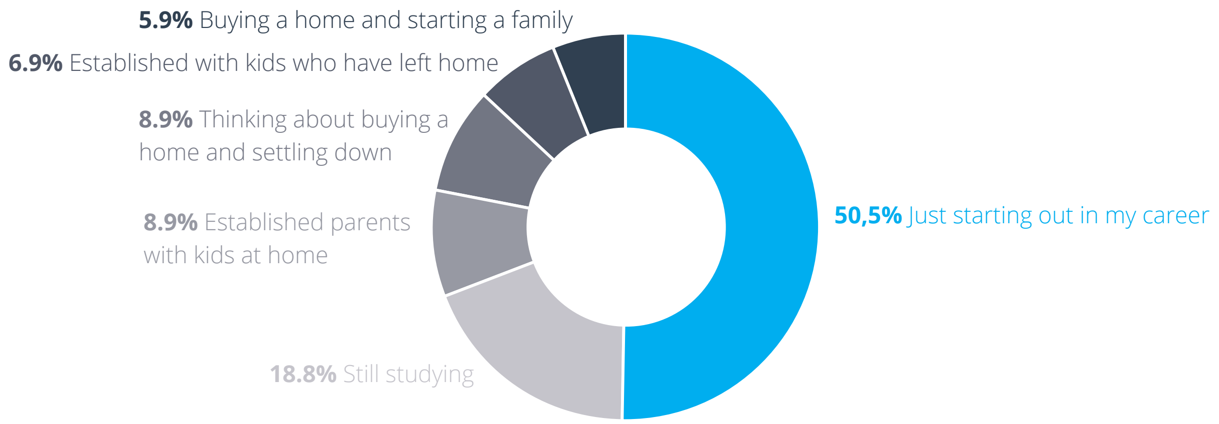
The data shows that almost half of respondents (46%) began planning for retirement only after becoming established with partners or having children, while just 22% began planning at the beginning of their careers, which is what is recommended.

The benefit of starting to save early cannot be stressed enough. It can be very difficult to start saving for retirement when you are just starting out at work and retirement seems light-years away. But starting out early and putting a little away every month and leaving it to grow over the decades is so much more manageable than starting late and trying to catch up.

Your early savings will grow and grow, thanks to the benefit of compound interest, and will do a lot of the work for you. If you think it is hard to put money away as you start your career imagine how much harder it would be to start a savings programme once you had trappings of middle age, such as a mortgage and children.

... and wishing they had started earlier

If given another chance, at what stage would you start planning for your retirement?



*Results are subject to a 0.1% rounding error

More than 50% of respondents feel they should have been saving for their retirement since the start of their career, as 22% of respondents did.

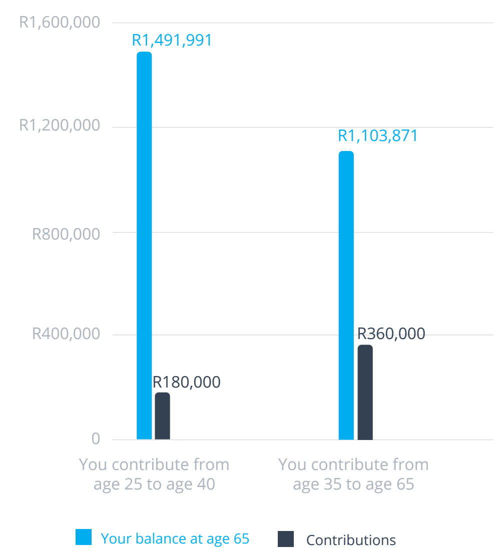
While it is heartening that many people realise they should have started saving early, it is a pity that so many people had to learn the hard way. This level of regret talks to the need in South Africa for a lot more education about retirement planning.

CASE STUDY/EXAMPLE

This example illustrates how powerful compounding is and the importance of starting early. Imagine you start saving at age 25 and dutifully put away R12,000 a year (equivalent of R1,000/month) and then for some reason you need to stop saving at age 40.

Your friend starts saving much later in life and saves the same R12,000 a year for the next 30 years, until you both retire. At that point in time, all else equal, you'll have more money than your friend even though you have only contributed half the money, over half the number of years.

Impact of investing early



*Hypothetical illustration assumes real investment return of 6.5% p.a.

Failing to make retirement savings a priority from the moment you receive your first paycheque will mean that you will have to contribute proportionally more of your salary to ensure that you reach your retirement goal.

For those who realise their savings plan is not on track there are almost always a way to improve their situation, such as moving savings to a product that charges lower fees. They could also delay their retirement date, or go into super saving mode.

Preserve your savings when changing jobs

		Marcus	Lerato
Age 25	**Marcus and Lerato** both start contributing R1,000 a month to retirement funds.	Savings: 0	Savings: 0
Age 35	**Marcus and Lerato** both change jobs. Marcus cashes in. Lerato preserves.	Savings: 0	Savings: R144,000
Age 65	**Marcus and Lerato** retire.	Savings: R673,000	Savings: R1,140,000

Chapter 3:
The Racial Divide

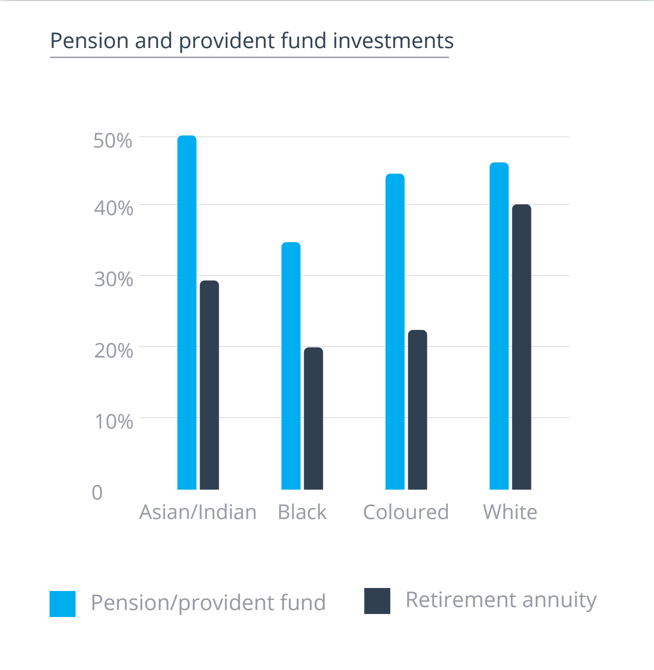
As expected, the 10X SA Retirement Reality Report found differences along racial lines in how South Africans are preparing for retirement.

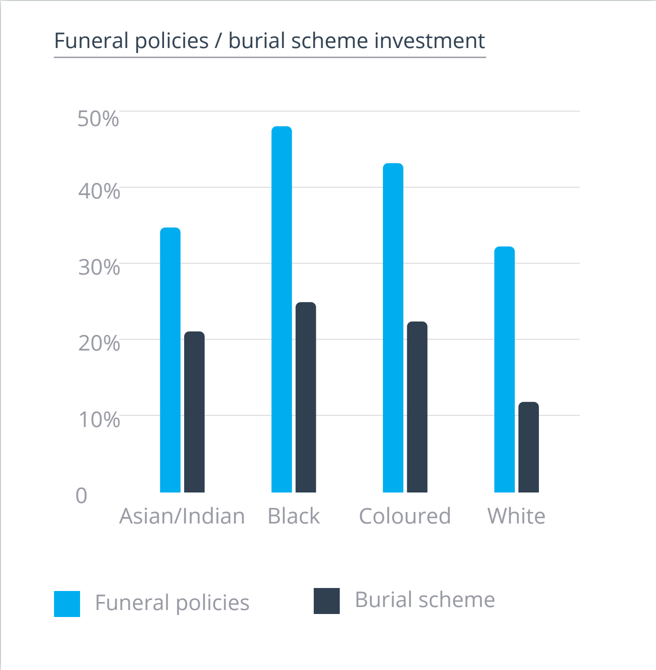
The results of the survey support the contention that the black population place greater emphasis on death benefits than on retirement saving.

There is a greater uptake of funeral and burial policies in the black community. Of those surveyed, 47% have a funeral policy and 25% have a burial scheme. By contrast, only 35% belong to a pension or provident fund and only 20% own a retirement annuity.

The preference of policies that cover for death rather than retirement is not just cultural but also financial, as these are much more affordable, and pay out almost immediately. Nonetheless, it is a point of concern that a considerably lower percentage of black respondents belong to workplace retirement funds than any of the other groups.

White respondents had the highest percentage (40%) of retirement annuity investors. These products are retirement funds for individuals. They usually serve as the primary savings vehicle for the self-employed, or employees without access to a workplace retirement fund. Others use them to supplement the workplace pension or provident fund, or simply to gain a tax advantage.

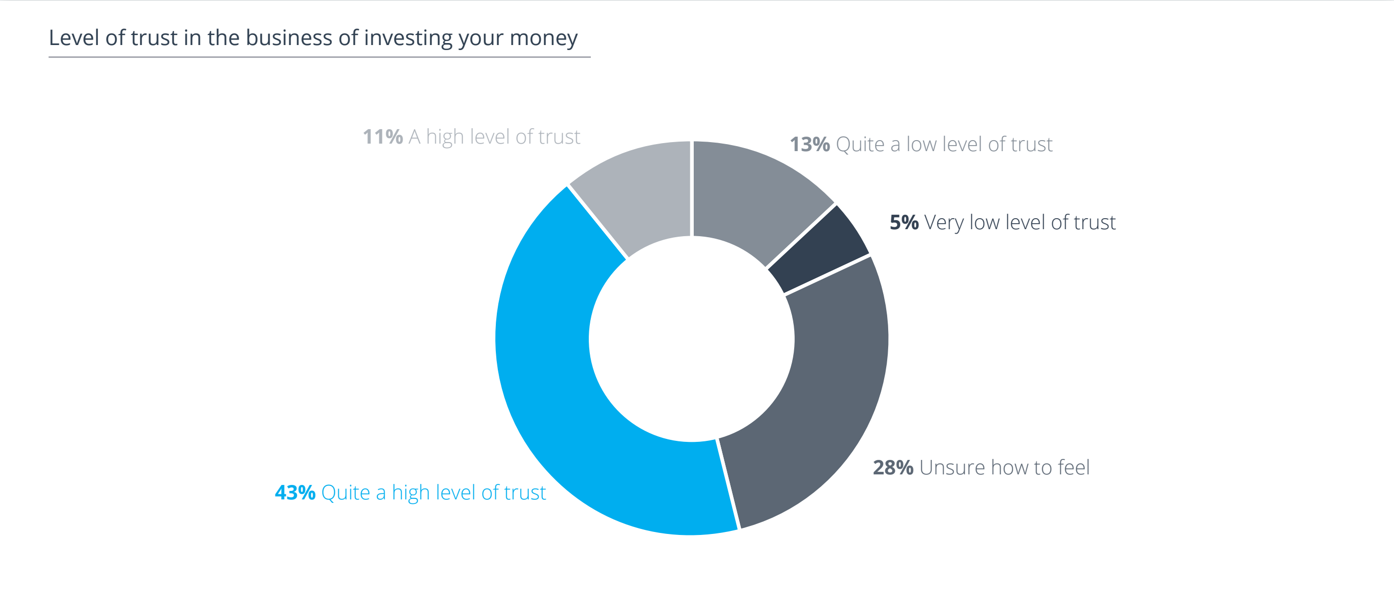




Chapter 4: **Misplaced Trust**

Widespread ignorance and low levels of confidence

...yet many still trust the industry



Some 54% of respondents trust the industry (from "quite a high level of trust" to a "high level"), even though only 7% are sufficiently engaged with their retirement affairs as to set out a formal plan.

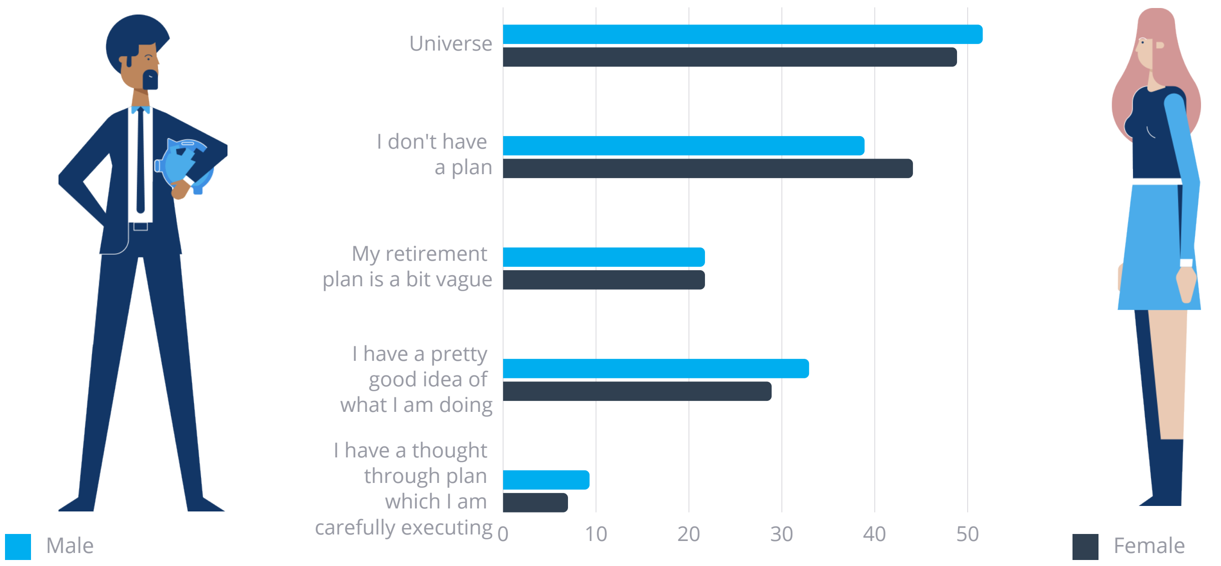
As more than half the respondents don't know the expected value of their retirement pot, or the monthly income they require in retirement, this trust appears founded on the notion that **"no news is good news" and by implication that the industry is quietly doing the necessary on their behalf.**

Chapter 5: **Women need more, have less and reject the best chance they have of closing the gap**

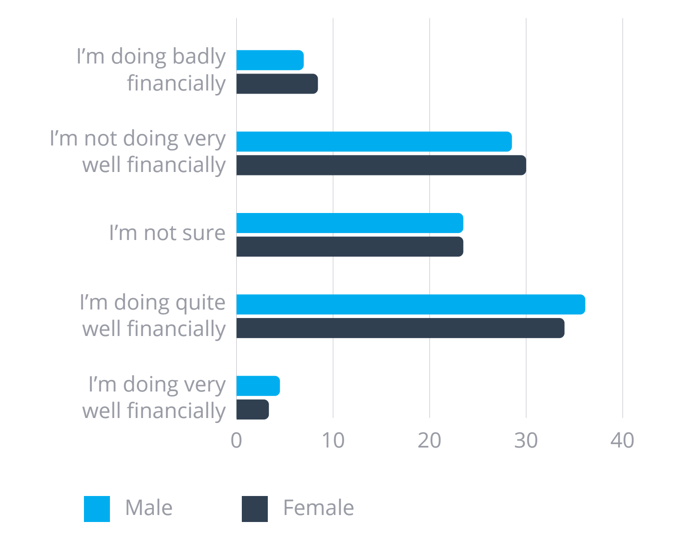
It is understood that women in South Africa earn around a quarter less than their male counterparts (Stats SA: 23%; Ipsos: 27%), a disparity that is exacerbated by the increased likelihood that their careers will be interrupted during pregnancy and child-rearing.

The survey results showed that women tended to prioritise expenditure for living costs associated with childcare and parenting over planning for retirement. Add cultural issues around women’s role in many communities and it is easy to see why, overall, women in South Africa have significantly less saved for retirement than men do.

How do you feel about your current retirement plan?



How happy are you with your financial predicament?

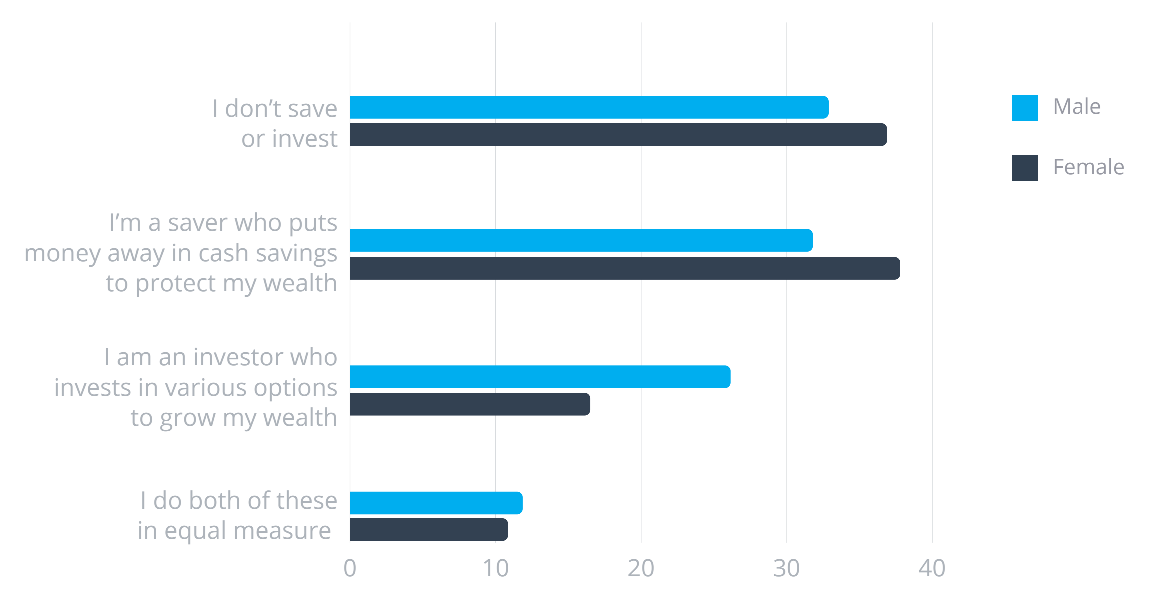


What makes this disparity even more worrying is the fact that South African women, on average, are expected to live quite a lot longer than men. Statistics SA's August 2018 report said:

"Life expectancy at birth is estimated at 61,1 years for males and 67,3 years for females."

The survey results showed that women were only slightly less happy with their financial situation than men, which might be a function of not knowing how much they had saved or what is required for a decent retirement.

Which of these investor types are you closest to?



The survey results supported anecdotal evidence that while women are more likely to save, they are less likely to invest their savings. A total of 36% of female respondents said they neither save nor invest, and 37% save cash but do not invest it. Very few women, a mere 16%, reported investing their savings in order to grow their wealth.

This effectively closes down a key avenue that women have to narrow the gap with men since experience has shown that investing in a well-diversified high equity portfolio is the best possible way to grow your money over the long-term.

If women aren't investing their money for growth they will have little chance of beating inflation and having enough money to draw a decent income after retirement.

Just putting money aside is not enough in a high inflation environment like South Africa. Saving money in a traditional bank account in this environment means your money is actually shrinking and that in the future will be able to buy less than it would today.

The report highlights the fact that a big contributor to South Africa's retirement crisis is lack of understanding of key concepts, such as the need for your retirement savings to keep up with inflation.

Investing: Keep it Simple

Your money grows by the gap between returns (what you earn) and fees (what you pay) so, simply put, you need to maximise growth and minimise fees.

Money grows through wealth creation. Companies create wealth through profits, therefore you want to own shares in companies.

How do you decide which companies to own? You don't! Use an index tracking fund to own a little bit of all of them.

Fees are charged for services provided so the easiest way to reduce them is to avoid buying things you don't need, such as a platform/an advisor/an expensive fund manager.

How do you do those two things? Invest in a low-cost index tracking fund.

PROUD WINNER 2016 Awards

Best Investment Practices, Institute of Retirement Funds Africa

PWC Vision to Reality Entrepreneurial Awards

2015 Awards

Balanced Fund Manager Of The Year, Batseta

Employee Benefit Administrator Of The Year, Batseta

Technology Provider Of The Year, Batseta

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