Will your employees be tomorrow's beggars?

It should come as no surprise that the majority of South Africans are in survival mode and not investing for retirement. In this article, Stuart Kantor – Director of Kanan Wealth – looks at why it's happening and what happens to older people who can't afford to support themselves, before providing one very straight forward solution: group pension schemes.

If you own a private company and don't have a group pension scheme, NOW is the time to implement one. A group pension scheme shows that you care and expresses gratitude for your employees' dedication to the success of your business. It also contributes to a brighter future for all South Africans – something which every business owner surely wants.

The hard truth

A recent survey by Sanlam revealed that a staggering 92% of South African retirees do not have an adequate amount of capital to live on. Ideally, you should have enough capital to generate at least 75% of your final paycheck as an income in retirement (escalating annually at the inflation rate). The Sanlam survey demonstrated that only 8% of South Africans achieve this and that the actual income replacement ratio is closer to 40% of final salary. It also revealed that a third of retirees couldn't even cover their medical expenses.

Another recent survey by MyTreasury showed that of all G20 countries South Africans have the worst household savings rate. Although we're worse off than the other countries on the list, the challenge is not confined to our shores. Of the G20 countries, only the people from Mexico and Japan are managing to save 15% of their income (widely seen as the minimum required to ensure a reasonable standard of living in retirement).

Why aren't we saving?

Most of us in South Africa are feeling the pinch as our salaries are not keeping up with inflation – especially the food, petrol, medical and educational inflation rates which are well above the general inflation rate. For most South Africans, there's little left to invest after paying all our monthly bills.

The survey also pinpointed some other reasons behind South Africa's retirement crisis.

- We start saving too late (28 years old vs suggested 23)
- We save too little (average savings rate of 7% vs the recommended minimum of 15%)
- 62% of us don't reinvest retirement savings if we're retrenched/change jobs
- 38% of us don't get retirement advice
- 90% of people with pensions don't ever look at the pension options again after signing up.

What's more, all the political upheaval makes it hard for many of us to envisage a retirement in South Africa and most of us can't afford to retire offshore even if we do have a foreign passport. We 'live in the now', which is all very well when it comes to personal fulfilment but not so clever when it comes to financial planning for retirement.

And then there's our propensity to use debt to fund lavish lifestyles. I firmly believe that it should be illegal for financial institutions to advertise credit facilities. This is already the case for cigarettes, and debt can be even more damaging than nicotine. It's also essential that retailers don't offer accounts to people who earn less than R 10 000 per month.

A missed opportunity

In addition to this, the survey showed that those who do manage to squirrel away some money aren't investing wisely. According to the latest SA Reserve Bank statistics, about 40% of all money in South African savings accounts earns very low-interest rates, if any interest at all. Even when the money is being saved, it's not being put to good use.

As a professional wealth advisor this is a particularly bitter bill to swallow, as I feel that anyone who is disciplined enough to save deserves to feel the full benefit of compound growth. If you invest R1 million in money market funds with an annual interest rate of 6% for ten years, you'll end up with R 1,819,396. But if you invest in a high equity fund, such as the Kanan Wealth Global Balanced Fund, which has a benchmark return of 12%, you'll end up with R 3,300,386.

I'm happy to see that many financial services businesses and industry associations are investing in consumer financial education and making people aware of the incredible power of growth on growth, but I will not rest until all South Africans know how to make smart investment choices.

Wait, there's more

The current political and economic situation is making things even worse. People who are nearing retirement and had planned to downsize their home to release capital are under increased pressure as property sales have come to a near halt with all the talk about property rights. The same applies to folks who had planned to sell their businesses as part of their retirement plan: we're officially in a recession and few businesses are changing hands.

What's the big deal?

People who can't afford to retire become ill. Money is one of the most significant causes of stress and prolonged stress can lead to serious health issues (and more bills!).

You can't solve the problem by not retiring. Even if you love your work and don't ever want to retire, you will age, and slow down and have less capacity to manage stress. It's also good to be aware of the high incidence of Alzheimer's and Dementia and the debilitating effect on the ability to work.

Also, many businesses have a strict policy regarding the need to retire at the age of 65. Although the retirement age may be raised with increased longevity, we need to be realistic and accept that most employers are prejudiced against older people.

More and more parents are becoming financially dependent on their children (who in many cases do not have enough to support their own families). Parents often move in with their children out of financial necessity, which can be very stressful for all concerned.

So, will your employees be tomorrow's beggars?

If you're privileged enough to be running your own business, your greatest responsibility is to the welfare of your employees. One look at the statistics above should show you that there's a genuine possibility that your employees will be tomorrow's beggars if you haven't set up a group pension plan with mandatory participation. Group pension plans allow your employees to focus on their work and be healthy and productive without the overwhelming fear of impending financial doom.

Every cloud has a silver lining

It's never too late to start planning for retirement for yourself and your employees. We as South Africans are super resilient, adaptable and quite able to accept that South Africa is no longer a land of plenty. We can all agree that minimalism is the new black and that it's never been more important to prioritise essential expenses like retirement, education and health. Remember the lovely old saying *'n boer maak a plan* and start saving now.

At Kanan Wealth we're dedicated to retirement planning for groups and individuals. Please do email me at skantor@kananwealth.com or call me on 021 - 461 2429 if you'd like to review your retirement plan or to establish a group scheme for your business.