



We're measuring everything these days – heart rate, shopping card points, how many steps we take. But we should also be measuring how well we're preparing for retirement, says **Karen Wentzel**, Head of Annuities at Sanlam Employee Benefits.

Since 1981, the Sanlam Benchmark research has helped stakeholders of SA's retirement funding system understand the topical issues of the era so they can make more informed decisions. The research has evolved as the retirement funding landscape has changed, shifting from defined benefits to defined contributions, from stand-alone funds to umbrella funds, and from the fund to the individual. Find all the 2017 insights at sanlambenchmark.co.za.



what's your (retirement) number?



How old is old?

Cementing her status as one of fashion's most cherished innovators, Iris Apfel has now launched her own line of wearable tech.

The 95-year-old New York style icon revealed her new 'Wisewear' collection: a selection of jewellery that allows wearers to monitor their health and keep track of their physical activities.

'Most [wearables are] quite hideous, and I don't run around in sweatpants. If a technology is going to strive to save my life, then at least take the next step to make me look good while doing it,' she says.

wisewear.com

We often don't know which measure is best to track our progress towards retirement, or even how to get there. In retirement planning, the two crucial questions are: What is the exact amount I need to retire? How much must I save every month or year to retire comfortably?

People are confused about these questions – but why? In the 2017 Sanlam Benchmark Survey, all funds said they have a stated target pension, expressed as a net replacement ratio (NRR) or projected pension ratio (PPR), towards which trustees actively work.

Calculating the ratio

If 40% of funds in the 2017 Benchmark Survey believe NRR is unsuitable for determining whether a member is on track for retirement, is it really an effective measure?

The funds are sceptical mainly because members don't understand NRR, and it's calculated using too many variables and assumptions. One of the biggest areas of concern is that most of the funds define pre-retirement salary as 'pensionable remuneration', or PEAR, which can be any percentage, usually less than 100%.

Given these reservations, it could be argued that NRR is not a suitable measure for determining whether an individual is on track for retirement.

So what should your number be?

An easy way for a member to understand the exact amount they should save, is to express their retirement savings as a multiple of their current salary at different points in their life.

The question is: What multiple of their current salary should a member save, assuming a retirement age of 65 years, with these assumptions:

- Member saves 15% per year of annual salary, including annual bonus or 13th cheque
- Investment returns of 10% per year
- Salary increase of 6,5% per year
- For married couples, both members contribute towards retirement savings.

Based on these assumptions and with the target of having a multiple of 15 times your final salary saved at retirement, the table on the right sets out milestones along the road to retirement.

The magic number

The goal of 15 is more than just a number. Currently, for every R1 million a 65-year-old retirement fund member saves, a man will receive a monthly pension of about R6 000 and a woman, who has a longer life expectancy, will receive about R5 400, increasing with inflation every year.

So to invest in an inflation-linked annuity at the age of 65, a member would need to have saved 15 times their final salary by age 65 to afford an annuity that will replace their salary.

What if you're a late starter?

For members who haven't yet started saving by age 25, saving 15% a year will be too little to achieve the multiple of 15 at retirement. They'll need to save much more per month, as the table on the right shows.



Images: Getty Images and supplied

What is NRR?

The net replacement ratio is the percentage of a member's pre-retirement income paid out by a pension plan on retirement, divided by their pre-retirement salary. This common measurement can be used to determine the effectiveness of a pension plan.

In what products should you save for retirement?

Generation Z, or post-millennials, who may have no idea what a defined benefit regime or NRR is, and who want flexibility and choice, should consider a combination of products, giving them more options in choosing their investment as well as easy access. The idea is to supplement their retirement savings by:

saving in a traditional pension or provident fund

- + retirement annuities
- + tax-free savings account
- + retail government bonds
- + ordinary unit trusts

Other ways to boost retirement investment

- 1 **Never cash out your retirement savings when changing jobs.** Don't be tempted to access your money to pay off debt, buy consumables or upgrade your lifestyle. The long-term need for a higher monthly pension is far more valuable than short-term luxuries.
- 2 **Retirement savings are as important as a well-deserved holiday, and not just a nice-to-have budget item.**
- 3 **Invest wisely, tax-efficiently and know exactly what you're paying in fees.** Investing for retirement is a very long-term goal, so make sure you're sufficiently invested in aggressive assets to give you inflation-beating investment returns of at least 10% per annum after fees.