

# Can you afford to retire comfortably?

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As a South African it's time to think seriously about your retirement plan and be cognisant of our changing world of work. In the UK, 20-year-olds are three times more likely to get to 100 than their grandparents; one-quarter of 16-year-olds are expected to make this milestone. While people are living much longer worldwide, AIDS masks the effects of improvements in living conditions and health care that most South Africans will enjoy.

A 20-year-old will work for 40 years before reaching the age to qualify for a state pension and, given the above analysis, have a reasonable chance of needing to live off savings for another 40 years.

We know that South Africans presently fail to protect their standard of living in retirement by saving adequately now. What will happen in future? The recently released Vision 2030 document by the National Planning Commission (NPC) outlines the extreme need to change the culture of savings in South Africa in light of the existing and anticipated changes to working lives, ensuring that our income security is enhanced as well as promoting saving as a way of life amongst all South Africans. At the moment, one-quarter of South Africans receive some form of social grant, we cannot afford to extend this any further.

## How do we overhaul the retirement savings structure?

Currently, many discussions are taking place amongst various bodies, including the government, who are tackling the million dollar question - how do we overhaul the retirement savings structure for South Africans?

The ultimate goal in reforming the current retirement system is to ensure financial security amongst the elderly by providing a pension for all through compulsory savings and reducing the dependency on the state in old age.

Whilst the argument appears simple in form; the overhaul of our current retirement saving structure has been subject to disagreement between various bodies, resulting in the next retirement reform policy paper to be released this year.

Whilst no formal commentary has been released, there is a general sentiment about what the social reform policy would mean to South Africans should it be introduced. At the moment it appears that it is likely to have a positive impact for all South Africans as it will assist in:

- Increasing long-term savings in a disciplined fashion
- Providing access to regulated simple, cost-effective retirement savings
- Providing access to related products for those who historically haven't had access.

However, one of the challenges outlined in the NPC Report is that in order for the proposed system to be successful it will require a larger working force and, presently, too few people are employed or at least declare their earnings. Nevertheless, the government aims to create 11 million jobs by 2030, confident that this will go a long way in aiding the reformation of our current retirement savings structure.

## **How will retirement reform be implemented?**

The question still remains, even with an increased work force, how will retirement reform be implemented in a socially challenged society, coupled with sluggish growth within the job market compacted by volatile economic conditions?

The NPC report offers an interesting insight into the thinking that is driving the proposed retirement reform and the mere fact that social protection forms part of the philosophy is heartening.

The need for social protection as an integral part of any country's social development and upliftment is well documented internationally. It is absolutely essential if our country wants to achieve any success in income equality, poverty alleviation and even crime reduction.

However, the document should not consider solutions for secure long-term employment as they have in the civil service, but focus on the needs of the currently under-catered-for population who are informally or temporarily employed and where the reality is that long-term job security is fast becoming a thing of the past.

The vision for 2030 is for all South Africans' to be part of a country that provides its people with a social system that allows for social security grants, mandatory retirement savings, risk benefits such as unemployment, death and disability benefits and voluntary retirement savings.

## **Retirement savings system for formal worker only?**

While substantial recognition is given in the document to the challenges of providing informal workers with formal retirement savings vehicles, it still hints at the possibility of the introduction of a dual contribution and a defined benefit retirement savings system for formal worker only. Informal workers would be catered for on an ad hoc basis with little social insurance.

Any retirement plan, whether undertaken by an individual or as part of a national scheme, needs to make allowance for the fact that the world of work is very different from what it was 20 years ago - and is likely to continue changing substantially over the next few decades.

Given the current challenging economic environment, the notion of long-term job security will most likely be more difficult to come by, hence it is going to become increasingly taxing for the majority of employees to make regular, fixed contributions to a retirement savings scheme for a lengthy period, resulting in dire implications for any retirement plan.

The challenge goes beyond finding a compulsory retirement savings solution that suits the nature of informal employment, it also needs to be cognisant of the fact that the very concept of completely stopping work at retirement age is fast becoming a foreign one, as an increasing number of people realise that they will need to retain employment of some sort after retirement age in order to make ends meet and face a far longer period in retirement than previous generations have.

The result of irregular payments into a retirement scheme makes the proposed defined benefit savings structure an unsustainable option for the national retirement scheme and simply tacking on a separate savings arrangement for informal employees will only serve to introduce higher risk into the overall scheme by encouraging people to seek out employment that enhances their benefit entitlements, usually to the detriment of the whole scheme.

## **Consistent treatment for all**

Possibly the most important consideration of any national retirement scheme eventually proposed by the government is that it must offer consistent treatment for all and the best way to achieve this would almost certainly be through a single, defined contribution system that covers all informally and formally employed workers by offering sufficient flexibility to allow for the likelihood of irregular income and payments, and the continuation of the strong social insurance safety net the social grants system provides.

The treatment of the nation's retirement savings is obviously a hugely emotive issue and the nature of employment in South Africa is also a highly politicised issue.

Hopefully, rational thought, foresight, and the lessons of an inflexible and now-crumbling European retirement system, are applied when constructing this country's retirement reform proposals to ensure that the dynamic employment circumstances and changing retirement needs of all South Africans are considered.

## ABOUT THE AUTHOR

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