How to plan for retirement

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Simple question, easy answer

- Start working age 23 earning R10 000 pm
- Inflationary increase of 6% in your salary every year
- Work for 42 years until age 65 then retire
- Save 15% of paycheque every month – 504 times
- Final paycheque will be a salary of R115 570
- Never access retirement capital even if you change jobs
- Financial advisor gives you ave. net return of 9% pa
- At retirement you will have saved R19,1million
- Pension 75% of last paycheque – Replacement Ratio 75%
- Pension increasing by 6% pa
- Pass away one month before you turn 91 – 26 years after retiring
- Perfect, financially independent retirement plan!

Why then do we have a retirement crisis in SA?

- Statistics shows a not so simple picture
- *"You get lies, damned lies and then you get statistics"*

  Mark Twain
- *"There are two kinds of statistics, the kind you look up and the kind you make up"*

  Rex Stout
- Out of every 100 people that make it to age 65:

Retired Financially independent	4
On Pension but struggling to make ends meet	17
Still working	29
Dependent on state or family	50

Realities of retirement planning

- Too many variables and unknowns – medical inflation, poor investment performance, high costs in savings instruments, effect of income tax, etc.
- Ability/willingness to put away enough for retirement when you start working and you are still young – averages in SA is starting at age 28 instead of 23 and with 7% contributions instead of 15%
- Accessing retirement capital when changing jobs – 85% of people changing jobs in SA do not preserve retirement benefits
- Poor financial planning and poor financial discipline
- “Sandwich generation”
- Life expectancy
- Changes in traditional view of concept of retirement

Changing view of retirement

- On Golden Pond Scenario – Clem Sunter
  - Grey flag
  - 100% probability
  - Baby Boomers becoming the Geriatric Boomers
  - Growing problem in Japan and Europe, less so in USA and developing countries
  - They have to be looked after
  - More and more money being spent on hospitals, medical schemes, welfare programmes
  - Increasing pressure on world economic growth
  - Influence the way we look at retirement planning

Changing view of retirement

- The Greatest Retirement Crisis in American History
  - Forbes magazine
  - Too frail to work, too poor to retire
  - Crisis will come in waves
  - Wave 1: Retirees come back to work – unemployment, mental and physical capacity
  - Wave 2: Workers delay full retirement – demotion, pay cuts, part time work, demoralizing
  - Wave 3: Realization that full retirement is unachievable – very limited other options?
  - Wave 4: Drowning – lack of savings, lack of employment opportunities, failing health
- Reality in SA? Pressure on Social security? Taxpayers?

Changing view of retirement

- Future of Retirement – rethinking the concept of retirement
  - Higher NRA, Bridge jobs
  - Not just good for your wealth but also your health, especially mental health
  - Plan to change jobs – technological change, retraining
  - The Great Re-invention of the final phase of your life from classic retirement to something like life fulfilment
  - Is retiring much later in life really that unrealistic?
  - Judges, orchestra conductors and politicians work well past the age of 65 – I can think of 2 presidents very close to us who are 74 and 92!
  - Will there be enough work for these people?
  - Two schools of thought on this point

Changing view of retirement

- One view – already high levels of unemployment, we need people to retire to make way for younger people to enter the working world, advances in artificial intelligence and robotics means even less employment opportunities
- Alternative view – Economies are elastic, by letting everyone participate we are more likely to have a better economy that compounds opportunity – think of the example of women entering the workplace
- Does present an opportunity – work providing products and services to older people – by 2050 a fifth of the world population will be 60 plus – there will be 10 times more old people than in 1950 – half of all people born this year will reach 100

Life Expectancy

- When concept of Social Security was first introduced in many countries members could collect benefits age 65 but average life expectancy was 63 – it makes sense why it would work
- Now more people are living much longer
- Over the last 50 years the period of retirement have lengthened dramatically – recent increases in retirement age have not offset this increase in life span
- More needs to be done to sustain retirement systems because of this increased life span
- In the early days of social security systems you had about 20 workers contributing to the system for each retiree
- By 2011 when the first baby boomer turned 65 there were about 2 workers per retiree and this number is decreasing even further

Life Expectancy

- When the 20th century began life expectancy in USA was 47, today it is 79, if the trend continues by 2050 it will be 88 and by 2100 it will be 100
- Lots of research being done about increasing life span – The Buck Institute, Google funded the California Life Company
- Researchers have already increased the life span of laboratory worms by 500%
- Obvious problem for retirement planning but good news is the research is not just about increasing life span but also the quality of life in old age
- Most exciting research work in longevity science is about making later years more vibrant

Sandwich Generation

- “I will catch up on my retirement provision later”
- When people should be focused on increasing retirement provision in their lives they are faced with the Sandwich problem
- First slice of bread - Cost of having children, increasing cost of educating children
- Second slice of bread – Cost of looking after parents that did not provide enough for their retirement
- Consequence is not enough money available to increase retirement provision
- When children are out of the house and/or parents pass away it is often too late to catch up – power of compound interest

Poor financial planning and discipline

- No access to proper financial planning – getting bad advice
- Poor management of finances and debt
- Getting caught in the debt trap
- Preservation of retirement capital when changing jobs – not enough being done to stop leakage
- Talking to people about providing more for retirement when they cannot make ends meet
- Scaring people with dire facts of retirement provision – situation so negative that nothing gets done

New view of retirement planning

- Should we throw out traditional thinking around retirement planning?
- No, but maybe we should be expanding our thinking around retirement planning
- Come up with alternative solutions to fit with the new view of the concept of retirement
- Start by turning retirement planning on its head and developing a new recipe for retirement planning

New recipe for retirement planning

1. Ensure you want to work longer if you have to one day

- Find a job that you love – something that is your passion that you do not want to retire from
- Something that fulfils you and inspires you to get up every morning and go to work
- "Working hard for something we don't care about is called stress, working hard for something we love is called passion"
- Not always easy but maybe we are going about it in wrong way
- Ted Talk – The Happiness Advantage, Shawn Anchor
- Research that disproves the idea that our external world is predictive of our level of happiness
- Long term happiness determined 10% circumstances
- 90% determined by the way your brain processes the external world

Train your brain to become more positive

- 2 minutes a day for 21 days in a row can rewire your brain to be more optimistic:
    I. Write down 3 new things you are grateful for (your brain gets into habit of scanning the world for the positive first)
    II. Journal about 1 positive experience in last 24h
    III. Exercise teaches your brain that behaviour matters
    IV. Meditation allows your brain to get over cultural ADHD created by multi-tasking – learn to focus
    V. Random acts of kindness – write one positive email per day, praising or thanking someone
- Train your brain to reverse the formula for happiness

New recipe for retirement planning

2. Ensure you are able to work longer if you have to one day

- Stay mentally and physically fit
- Keep on learning, embrace change and technology - do not get left behind
- Training, going back to school
- Enough research on brain development – benefits of keeping your brain active
- Physical fitness – make healthy choices, eating habits, smoking, exercise
- Make yourself indispensable, somebody that employers want to keep around for longer so that you can choose when you want to retire instead of being dictated to by a NRA

New recipe for retirement planning

3. Understand the importance of a life portfolio

- Becoming as important as a financial portfolio
- Life Portfolio – activities and interests driven by personal passions, volunteer work, paid work, family time, artistic endeavours, hobbies, sports, travel, time with friends or learning something new
- New definition of success in retirement – every year that a retiree can say that he or she accomplished something of value based a on personal value system – strong personal passions

New recipe for retirement planning

4. Employers taking more responsibility for employees

- Most leverage in the first week of first employment
- Avoid categories of membership allowing lower contribution percentages
- Ensuring default choices are in the best interest of members and that costs are kept as low as possible
- Increased focus on financial literacy of employees
- Increase awareness of importance of retirement planning and taking responsibility
- Embracing the idea of employees working beyond NRA
- Creating a work environment that changes attitudes to the elderly – recognizing the value of institutional knowledge and experience

New recipe for retirement planning

5. Employees taking more responsibility

- Thinking we have to fight against and change
    - Just because I belong to my employer’s retirement fund I will be able to retire one day
    - There is not much I can do to change my retirement picture – it is up to my employer
    - I am so far behind in my retirement provision nothing will make a difference
    - I do not have any additional funds available to boost my retirement savings
- Every single member of a retirement fund in SA should know what their Replacement Ratio is and should be monitoring their progress every year

New recipe for retirement planning

6. Addressing the root of the problem

- Change thinking around managing your finances
- Move retirement planning up in your budgeting process
    - The picture I encounter most often is first necessities, then luxuries, then unforeseen, then investment planning which includes retirement planning
    - I think investment/retirement planning should always be second in your budgeting process
- You cannot expect somebody to worry about their retirement if they do not have enough money to pay all their expenses at the end of this month

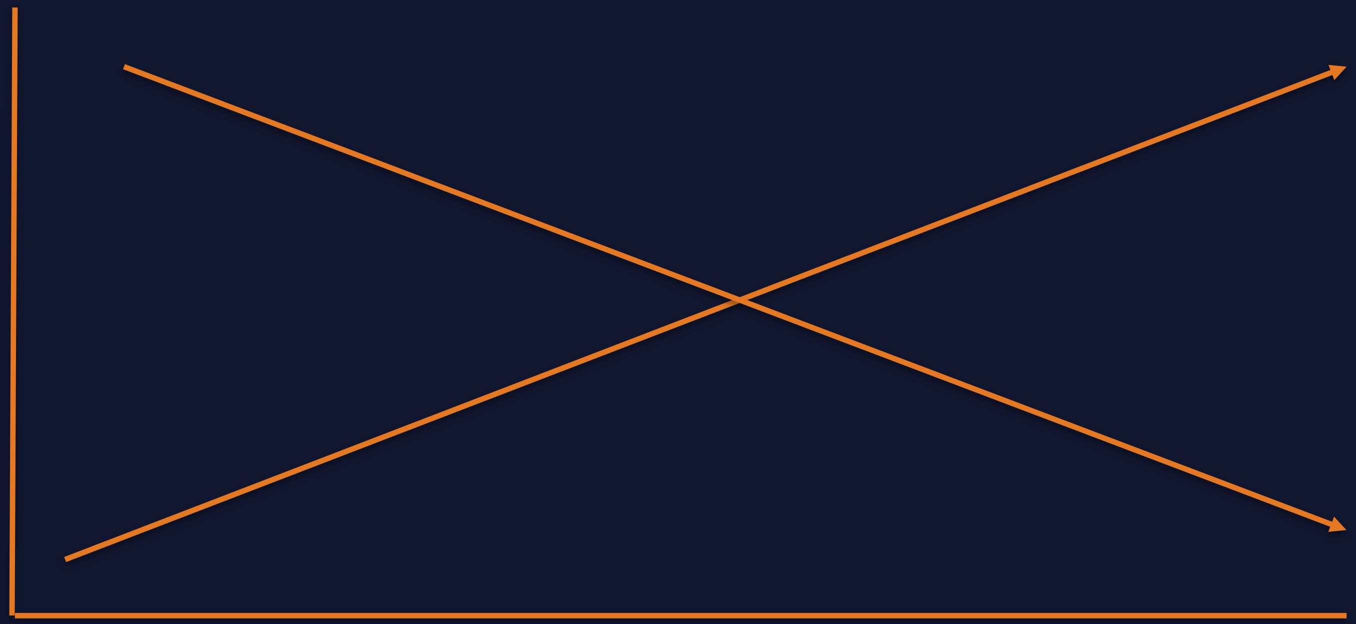
New recipe for retirement planning

7. Financial planning

- Failing to plan is planning to fail!
- When advising members on retirement planning do not scare – focus on advising how to solve budget problem
- Understand the difference that small decreases in cost and small increases in investment performance can make over your working life to your potential retirement capital – scenario planning
- Understand and use the income tax gearing effect of approved retirement instruments
- Understand link between retirement planning and risk planning and when you should be focussing on each

New Recipe for retirement planning

- Risk Insurance vs. Investment/Retirement Planning
- Proper financial planning throughout your life creates the following idealistic model – normal circumstances



New recipe for retirement planning

8. Develop smart financial habits

- Budget
- Save Money
- Max out your retirement savings
- Don’t borrow money
- Create a financial plan with the help of an expert
- If you are in debt create a debt elimination plan

Conclusion

- Still looking for alternatives because you cannot turn back the clock and start saving from an early age?
- Interesting new model – Blake, Wright and Zhang paper "Age Dependent Investing: Optimal funding and investment strategies …"
- Save nothing before age 35 but then keep your standard of living constant until retirement and use all increases in income in excess of inflation to fund retirement provision
- Same outcome as the person starting at age 23 – risk is again lack of financial discipline

Conclusion

- We have to do more and we have to think further than the normal when it comes to retirement planning in a changing modern world
- We have to change our habits and thinking around money to not be controlled by money
- When life happens you can either be the author of your life or the victim of it. And what is the main difference between author and victim – being accountable! Taking responsibility yourself, not blaming others, not getting stuck on excuses, avoiding reality – believing if it is to be it is up to me!

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