EMPLOYEE BENEFITS INSIGHT

The benefits of preserving your retirement savings

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Many of the individuals we serve are members of retirement funds and contribute towards their retirement savings. According to a recent survey, many South Africans are simply not ready for the financial consequences of retirement. While saving for retirement on a regular basis and throughout your career is very important, preserving your funds when changing employers should also be right at the top your list of retirement savings *do's*.

We are not saving enough for retirement

The 2018 Sanlam Employee Benefits Benchmark Survey research findings show that retirement fund members are still no closer to their desired financial outcomes or maintaining their pre-retirement standard of living: "Employers estimate that on average only 14% of their employees will be able to maintain their current standard of living when retired. This is worse than last year's 18%."

The simple principle: accumulate during your working life to provide an income in retirement

At retirement, the employee-employer relationship comes to an end, and so does the regular monthly salary you've come to expect. From that point on, you will have to use your accumulated savings to provide you with an income. You work so that you can provide for your family and your lifestyle, and you save so that you will have an alternative source of income to continue providing for them when you are no longer working.

Changing jobs is normal in today's environment

One of the issues we face along the way is cashing out accumulated retirement savings when resigning. The consequences of this can be disastrous. A recent survey by recruitment agency Kelly found that 47% of South African employees have been in their current position for less than a year. What's more, 36% identified their longest tenure with an employer as one to two years. The vast majority (44%) of survey respondents noted that they have had two to three jobs since they entered the workforce, followed by 29% who shared that they have had four to six jobs since they started working. Changing jobs is to be expected in today's environment.

… but doing so brings temptation

When changing jobs, your employer usually asks you what you want to do with your retirement savings. The options are to:

- transfer to another fund, like your new employer's retirement fund or a preservation fund, or
- take a portion (or all) of your savings in cash.

The option of taking everything in cash is very tempting, as human nature kicks in, and we start thinking about everything we can do with that money. It is easy to focus on short-term satisfaction rather than weighing up the long-term benefits. A 2015 survey found that two-thirds of people leaving their jobs cash out their retirement savings. Most of them use the money to pay off short-term debt.

Members' retirement readiness

Percentage of retirement fund members believed to be financially on track for retirement:

2018	15.80%
2017	11.67%
2016	17.45%
2015	15.25%
2014	17.33%

Source: Sanlam Benchmark Survey 2018

Impact of withdrawing your retirement savings

The scenario on the following page shows the impact of withdrawing your benefits. By withdrawing R261 972, Thembi has R1m less at retirement, which translates into approximately R4 500 less income per month.

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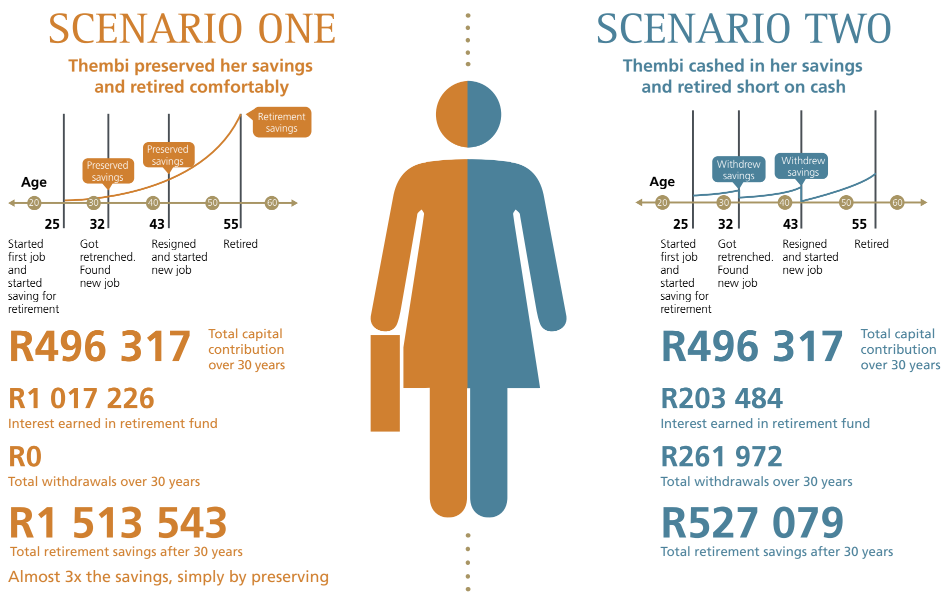

Assumptions: 9% p.a. interest earned on retirement savings; starting salary of R5 000 p.m.; salary increases by 7.5% p.a. on average over career; contributes 8% of gross salary to retirement savings.

Source: Sanlam BENCHMARK Survey 2015

Understanding your preservation options

While you can preserve your money in a retirement annuity or in your new employer's retirement fund, many people want the flexibility of being able to access their retirement savings should the need arise in the future – for example, in the case of retrenchment. For this reason, preservation funds can be a good option to help us resist the lure of short-term spending, while allowing our accumulated savings enough time to grow tax free.

What is a preservation fund?

A preservation fund is a personal retirement savings vehicle that allows you to preserve and grow your benefits in a tax-efficient way. They provide the flexibility of allowing you to make one withdrawal (of up to 100% depending on the source) before retirement, subject to tax.

- You have the option to retire from your preservation fund at any time after the age of 55. In this way you can also stagger your retirement.
- There are two types of preservation funds. Provident preservation funds accept money from provident retirement funds. Pension preservation funds accept money from pension retirement funds.
- On retirement from the provident preservation fund, currently, your entire investment value may be taken as a lump sum or invested in an annuity or a combination of the two.
- On retirement from the pension preservation fund, a maximum of one-third of your investment value may be taken as a lump sum. The balance of the investment value must be invested in a compulsory annuity. If your total investment value at retirement is less than R247 500, the full amount can be taken as a lump sum.
- No ongoing contributions can be made to the preservation fund.
- Your selection of underlying investments will have to comply with the limits set by Regulation 28 of the Pension Funds Act. Regulation 28 limits are aimed at preventing investors from taking too much risk with their retirement savings. Various asset limitations include a maximum of 75% equity, 30% foreign equity and 25% property exposure.

Preserving your capital is the first step

Not cashing out your benefits will help to ensure that you are in a better position to retire comfortably one day. Selecting the best option for you to do so is the first step, and your qualified financial adviser can help you weigh up the benefits of each of the available options. Importantly, make sure that once you have preserved your money, you give it the best possible chance to grow at a rate above inflation by investing in the appropriate funds.

When it comes to retiring with enough savings to last a lifetime, you need to ensure that you use as many of the levers available to you as possible to help you reach your goal. Start early and save throughout your working life. But most importantly, be sure to preserve your savings along the way – your future self will thank you!