

2013 Convention

new solutions for a new world

31 Oct - 1 Nov 2013

Sandton, Johannesburg

A black silhouette of a city skyline, including a prominent tower, spans the top of the slide.

INVESTIGATING RETIREMENT ABILITY OF HIGH NEW WORTH INDIVIDUALS IN SOUTH AFRICA

Frans F. Koning & Willie Harbor

UFS

2013 Convention

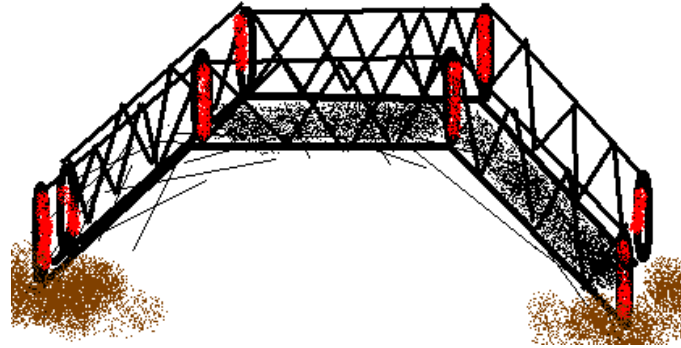
31 Oct & 1 Nov

Agenda

1. INTRODUCTION
2. BACKGROUND OF SAVING AND SPENDING IN S.A.
3. PLANNING - DETERMINING OUR SAVINGS GOAL
4. SURVEY AND RESULTS
5. CONCLUDING REMARKS

INTRODUCTION

SAVINGS



RETIREMENT

Saving too much = sacrifice the good life for uncertain tomorrow

Saving too little = living with your son-in-law, work at Mr Delivery

INTRODUCTION

- SETTING THE SCENE
 - High Net Worth Individuals (HNWIs) – defined
 - Investable assets > \$1 million (Capgemini World Wealth Report 2013)
 - Our definition: typical client base of Financial Advisors (FAs)
 - “Retirement ability” or being “Able to retire” – defined
 - Having sufficient savings to sustain lifestyle post retirement
 - Earning minimum wage – sustain lifestyle using SOAP
 - Measured in terms of replacement ratios
 - Measured in terms of a multiple of annual salary
 - MEASURE IN TERMS OF CURRENT LIFESTYLE AND NOT SALARY

INTRODUCTION

- The question addressed in this study is ...
 - ... whether HNWIs are able to retire, can they maintain their current lifestyle into retirement up until death?
- It turned out that maybe more important may be ...
 - ... how well are HNWIs planning to retire?
 - ... how well are they saving to meet the plan?
 - ... how well can they maintain lifestyle into retirement?
 - ... how do we measure this?

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BACKGROUND OF SAVING AND SPENDING IN S.A.

- Before retirement – Savings



BACKGROUND OF SAVING AND SPENDING IN S.A.

- Before retirement – Savings
- Saving = shopping?

**SAVE OVER
R1200**
with instant shopping



BACKGROUND OF SAVING AND SPENDING IN S.A.

- Before retirement - Savings
 - The highly educated, post graduates and professionals tend not to save enough. (Edwards & Barney 2012; Skinner 2007)
 - The average saving time is 28years (from age 37) while at least 40 years required. (van Rensburg 2013)
 - South Africans save on average only 8% of salary and only 6% of South Africans will retire comfortably. (le Roux 2012)
 - Yet, saving an inheritance for the children is priority – will they really need this at age 65 on your death at 95? However, inheritance can boost retirement ability at advanced ages.

BACKGROUND OF SAVING AND SPENDING IN S.A.

- Before retirement - Savings
 - The cost of saving (charges on products) are high in SA compared to international benchmarks (Rusconi 2005)
 - Lack of info and ignorance of basic financial concepts affect the propensity to save. (Yakoboski 2011)
 - HNWI's save more than people on low incomes. (Dynam et al. 2004)
 - Yet, FAs in South Africa feel the figures look grim.

BACKGROUND OF SAVING AND SPENDING IN S.A.

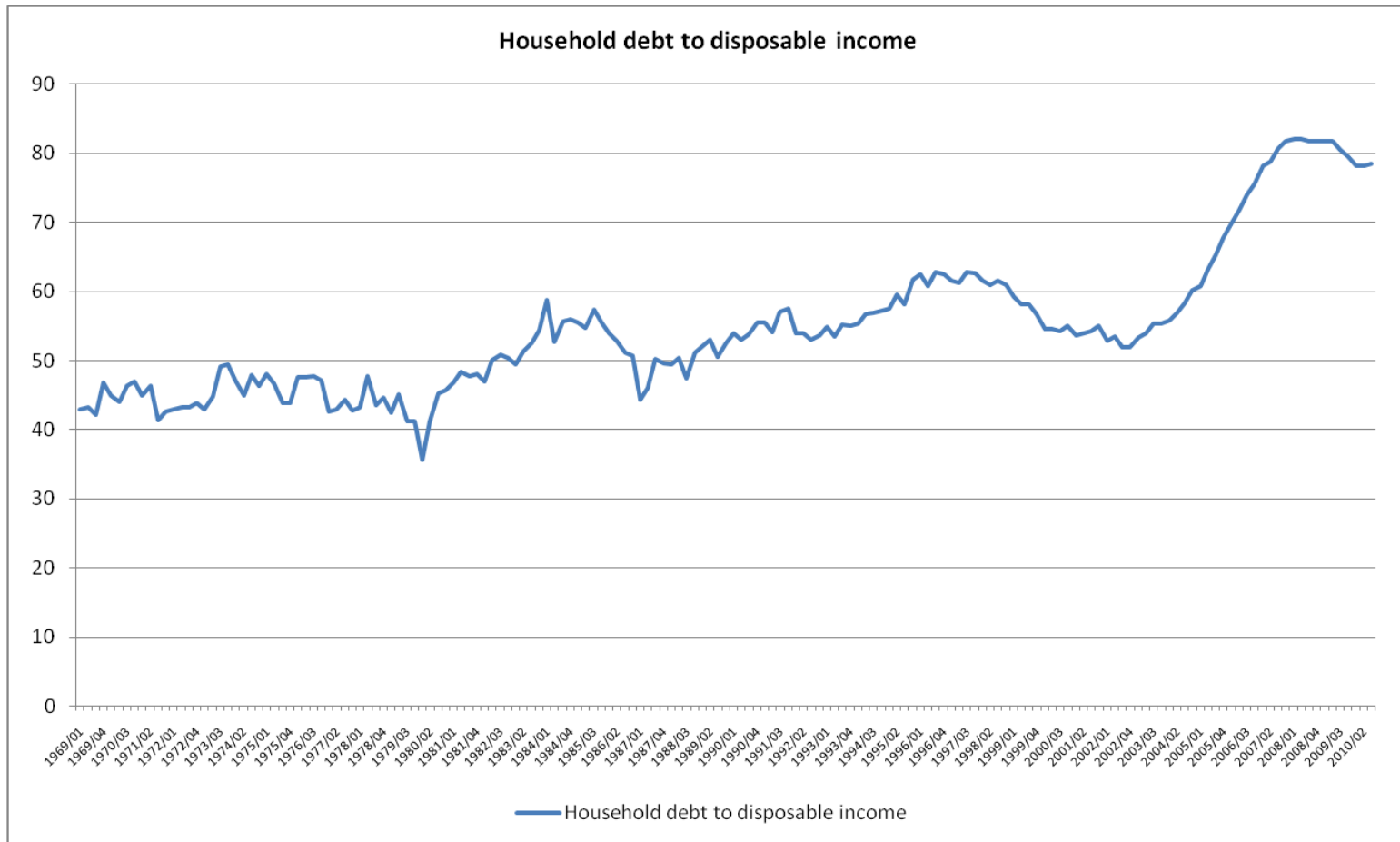
- Before retirement - Planning
 - HNWI's often do not consult FAs on preserving wealth.
 - A staggering 56% of HNWI's in US do not account for life expectancy in retirement planning (U.S. Trust Insights on Wealth and Worth 2013)
 - In OZ more than 50% of individuals in 50's & 60's have not yet planned key aspects of retirement. (Agnew et al. 2012)
 - Only 17% of HNWI's who consulted FAs implement the advice they received . (Yakoboski 2011)

BACKGROUND OF SAVING AND SPENDING IN S.A.

- Before retirement – Planning
 - Improvements
 - Preservation to be brought back
 - National Pension Fund in the horizon
 - Unknowns / risks in future planning are
 - Medical costs,
 - Taxation,
 - Longevity,
 - Inflation,
 - Support to children/heirs or parents/in-laws
 - Long Term Care costs.

BACKGROUND OF SAVING AND SPENDING IN S.A.

- Before retirement – Debt



BACKGROUND OF SAVING AND SPENDING IN S.A.

- At retirement
 - Anticipated decline in consumption at retirement less than actual decline – our savings are based on anticipated (Edwards and Barney 2012)
 - Retirement age in SA at 60. Thus reducing the savings period and increasing the retirement period – of suffering with low income

BACKGROUND OF SAVING AND SPENDING IN S.A.

- After retirement
 - In SA 2.65mil people rely on SOAP, 72% of those above 60
 - Increasing longevity among HNWIs increases the probability of outliving assets and the need of LTC. LTC in turn increases longevity.
 - Healthcare costs increase so significantly that it contradicts the belief of lower replacement ratios. (Butler & van Zyl 2012)
 - In SA very few products are dedicated to saving for frail care or LTC. Certain life products have LTC-like benefits.
 - In SA 85% of retirement assets went to Living annuities – leaving retirees with the investment and longevity risks. (Niel Fourie 2012)

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DETERMINING OUR SAVINGS GOAL

- RETIREMENT PLANNING – A LIFELONG PROCESS

STAGE 1 2 STAGE 3

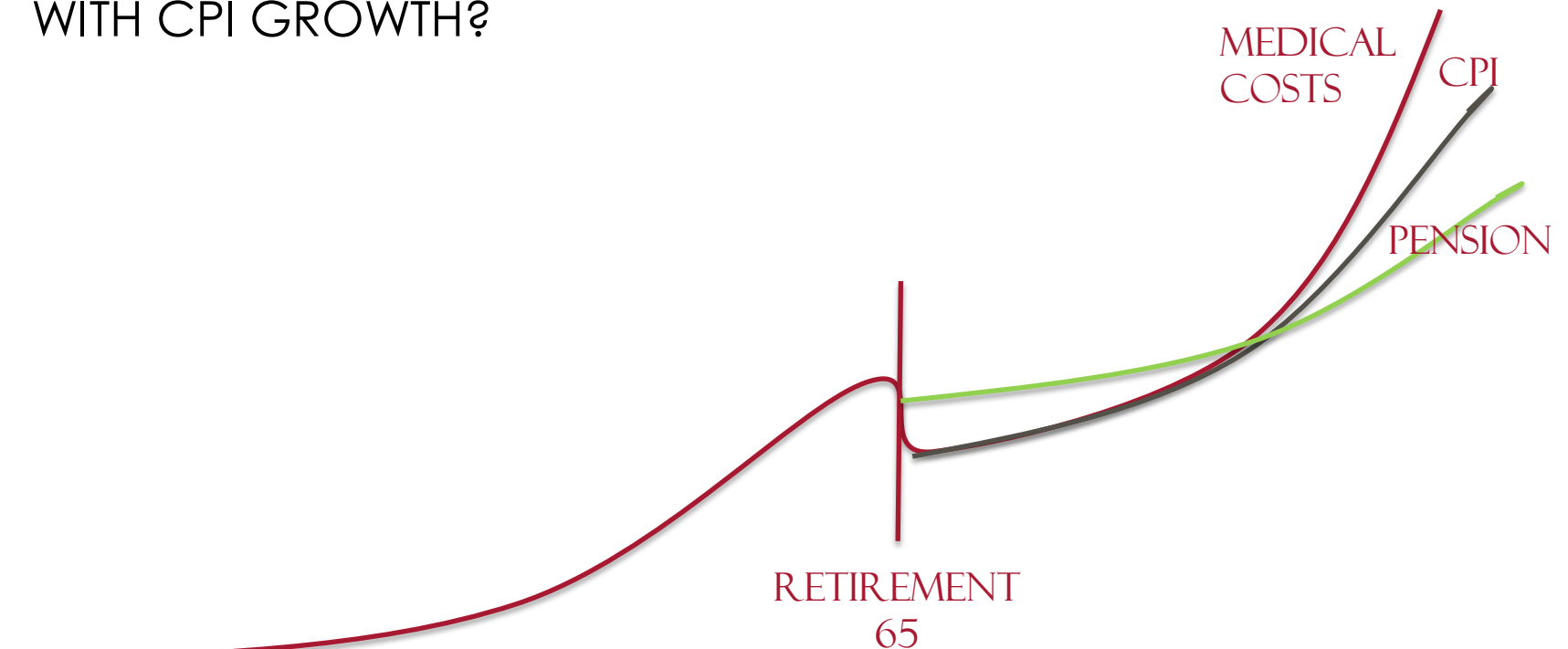


DETERMINING OUR SAVINGS GOAL

- The common method:
 - Replace 100% x salary (or chosen amount) for future expected lifetime (or chosen #years)
- Troubling factors
 - High probability of outliving future expected lifetime
 - Investment risk and longevity risk mostly retained
 - Mismatch of income and outflow
 - Medical cost and inflation much higher than CPI
 - Long term care needs late in life

DETERMINING OUR SAVINGS GOAL

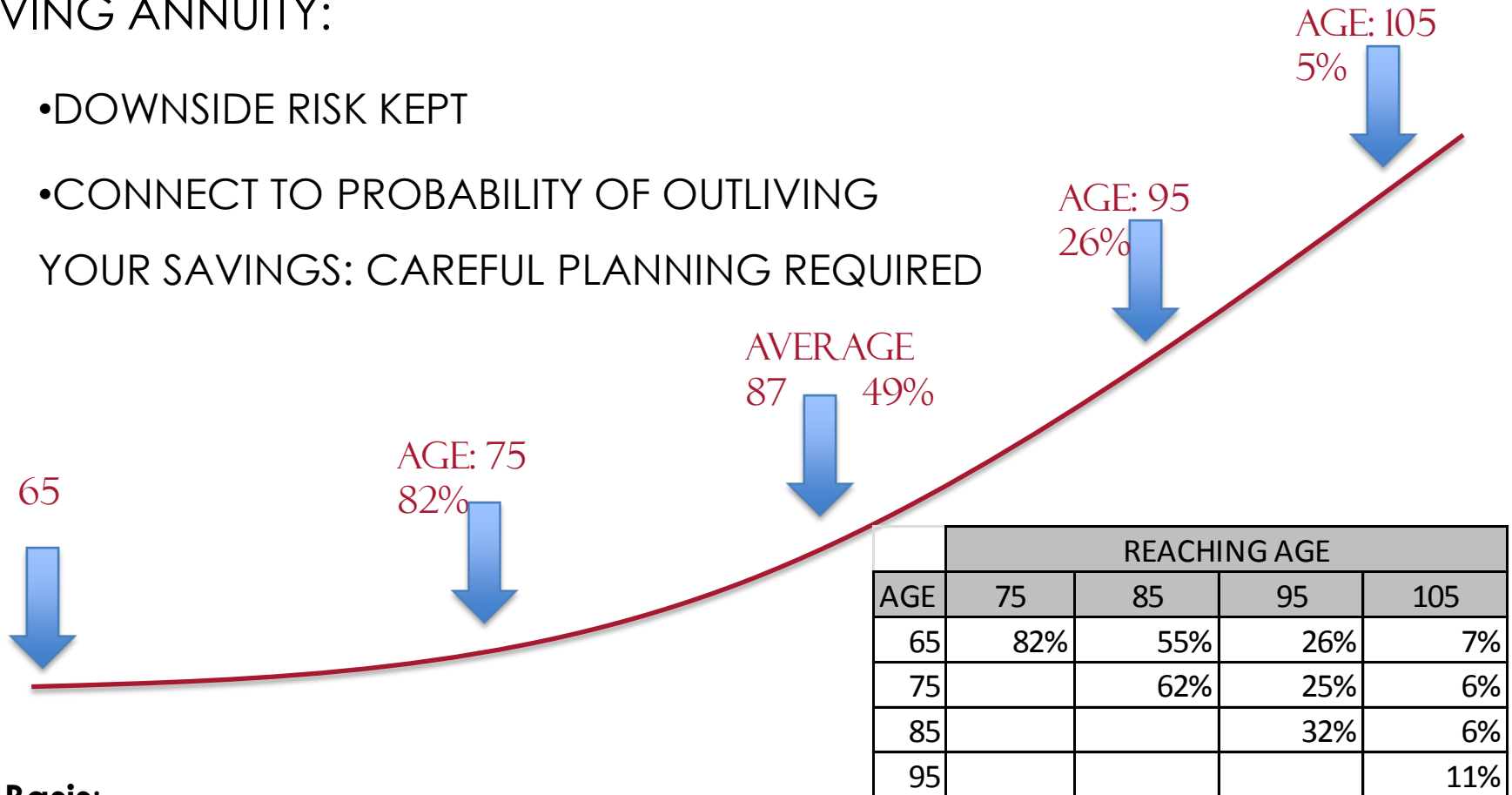
- SALARY REPLACEMENT: 60%, 80%, 100%?
- WITH CPI GROWTH?



DETERMINING OUR SAVINGS GOAL

LIVING ANNUITY:

- DOWNSIDE RISK KEPT
- CONNECT TO PROBABILITY OF OUTLIVING YOUR SAVINGS: CAREFUL PLANNING REQUIRED



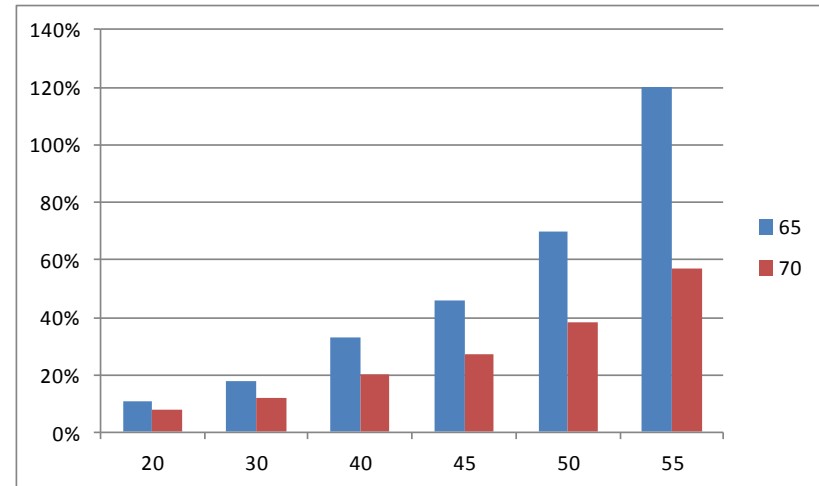
Basis:

50% of SA85-90 + 1.5% mortality improvement per annum

DETERMINING OUR SAVINGS GOAL

SO HOW MUCH DO I HAVE TO SAVE?

Retire	65	70	65	70
SAVE AGE	REACH	REACH	SAVE	SAVE
20	91%	88%	11%	8%
30	91%	87%	18%	12%
40	90%	86%	33%	20%
45	91%	86%	46%	27%
50	91%	86%	70%	38%
55	92%	86%	120%	57%



- Based on future EXPECTED lifetime

Basis:

50% of SA85-90 + 1.5% mortality improvement p.a.

6% Inflation pre and post retirement

100% replacement ratio growing with inflation

7.5% salary growth

10% return pre retirement, 9% discount rate post

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SURVEY AND RESULTS

- 80 e-mails sent, 19 usable forms received
- Spanning 6 provinces and large client base of FAs
- Questionnaire kept simple, short, 1 minute to complete
- Goal of the questionnaire (not a scientific study)
 - Retirement ability of HNWIs?
 - Calculation method used by FAs to calculate..
 - Disposable income
 - Working lifetime and retirement age
 - Retirement lifetime, expected age at death

SURVEY AND RESULTS

- WHAT PERCENTAGE OF CLIENTS CAN RETIRE?
- Q1: What percentage of your salaried clients can retire comfortably? Average = 19.7%
- Q2: What percentage of your business clients can retire comfortably? Average = 26.0%
- This opinion depends on the understanding of an FA on the definition of “retirement ability” or “able to retire”

SURVEY AND RESULTS

- WHAT PERCENTAGE OF CLIENTS CAN RETIRE?

	Q1_%	Q2_%
1	2	5
2	6	0
3	3	4
4	40	10
5	5	5
6	70	60
7	5	4
8	20	70
9	6	90
10	20	25
11	50	70
12	10	5
13	10	5
14	20	25
15	10	15
16	2	0
17	6	20
18	65	60
19	25	20

- NEW SOLUTION REQUIRED

- definition of “retirement ability”

SURVEY AND RESULTS

- DISPOSABLE INCOME
 - For what % of clients...
 - Q3: ...would you do a **cash-flow analysis**?
 - Average = 64.0% (varied from 0% to 100%)
 - 25% of FAs replied 100%
 - Q4: ...would you **ask** their disposable income amount?
 - Average = 77.4% (mostly 100%)
 - 58% of FAs replied 100%
 - Q5: ...do you **know** their current salary?
 - Average = 91.3% (Mostly 100%)
 - 74% of FAs replied 100%

SURVEY AND RESULTS

- DISPOSABLE INCOME

- Can a doctor recommend the correct treatment without all the info –
how far should the trust relationship of FAs go?

- NEW SOLUTION

- Should not all do cash-flow analyses?

	Q3_ %	Q4_ %	Q5_ %
1	100	100	100
2	100	100	100
3	5	100	100
4	50	100	100
5	50	50	100
6	85	100	100
7	0	0	30
8	80	10	100
9	100	100	100
10	75	100	100
11	100	100	100
12	30	60	95
13	80	40	100
14	100	100	100
15	20	75	90
16	100	100	100
17	40	70	30
18	5	100	100
19	95	65	90

SURVEY AND RESULTS

- RETIREMENT CALCULATIONS BASED ON?
- For what % of clients...
 - Q6: ...do you base retirement calculations on...
 - current salary? Average 31.6%
 - what the client requires? Average 57.1%
 - what you think is required? Average 11.3%

SURVEY AND RESULTS

- RETIREMENT CALCULATIONS BASED ON?

- NEW SOLUTION?

- Replacement ratio
- Multiple of annual salary
- Base on Future potential outflow
- Develop Products that match income and outflow post retirement

	CURRENT SALARY	CLIENTS SUGGEST	FAs SUGGEST
1	0	100	0
2	0	100	0
3	0	100	0
4	90	10	0
5	50	50	0
6	40	40	20
7	60	30	10
8	20	30	50
9	0	100	0
10	50	40	10
11	0	100	0
12	20	80	0
13	100	0	0
14	50	25	25
15	25	20	55
16	0	100	0
17	15	60	25
18	30	50	20
19	50	50	0

SURVEY AND RESULTS

- WORKING LIFETIME AND RETIREMENT AGE
- For what % of clients...
 - Q7: ...do you allow for ...
 - retirement age 60? Average = 21%
 - retirement age 65? Average = 65%
 - a different retirement age ? Average = 14%
 - normally an age of ___ years? Most answered: 70

SURVEY AND RESULTS

- DETERMINING AGE AT DEATH
- For what % of clients...
 - Q8: to determine maximum age ...
 - do you ask up to what age they will require income?
Average = 40%
 - do you use the software package projected age?
Average = 38%
 - do you suggest the age up to which they will require income?
Average = 22%

SURVEY AND RESULTS

- DETERMINING AGE AT DEATH
 - Only important to those keeping investment & longevity risks
 - Who goes to the doctor and then gets asked what is wrong and what should be prescribed? Then gets a form (Record of advice – ROA) to sign stating that we are happy to follow our own head.
 - Determining future lifetime is at the diagnosis stage not the treatment stage

CLIENT SUGGESTS	SOFTWARE SUGGESTS	FA SUGGESTS
100	0	0
0	0	100
100	100	100
10	90	0
0	100	0
33	34	33
20	20	60
10	80	10
90	10	0
50	25	25
10	80	10
0	70	30
80	0	20
0	50	50
100	0	0
0	100	0
70	0	30
40	5	45
100	0	0

SURVEY AND RESULTS

- DETERMINING AGE AT DEATH
- NEW SOLUTION?
 - Promote guaranteed annuities
 - Again – that match outflow
 - Make clients aware of downside risk if they are keeping this, i.e. probability of outliving funds, reduced replacement ratio due to medical costs
 - More accurate diagnosis of the retirement income requirement/shortage is required, with better prescription of savings treatment

SURVEY AND RESULTS

- FOLLOWING ADVICE
- AVERAGE = 39%
- NEW SOLUTION?
 - Be more accurate and convincing in diagnosis
 - Which would promote acceptance of treatment

	CLIENT FOLLOW
1	1
2	0
3	85
4	40
5	40
6	75
7	2
8	20
9	95
10	80
11	
12	90
13	20
14	5
15	25
16	1
17	15
18	80
19	20

SURVEY AND RESULTS

- CORRELATIONS – none statistically significant
- Advisors who had more clients following their advice, also indicated that more of their clients are able to retire
- There was a positive correlation between those advisors who use the computer package suggested age of death (future expected lifetime) and clients following the advice
- There was a positive relationship between advisor suggesting salary and retirement ability

CONCLUDING REMARKS

NEW SOLUTIONS FOR A NEW WORLD

- Since retirement ability does not depend on salary but on savings AND lifestyle, our HNWIs are no less vulnerable than low income earners
- Saving should be promoted among rich and poor
 - But how much? – trusted guidance should be provided
 - And saving incentivised from early ages
 - Public should be educated
- More scientific research on retirement ability is desperately needed at all stages of retirement planning.

CONCLUDING REMARKS

NEW SOLUTIONS FOR A NEW WORLD

- FAs and their software tools are trusted by individuals
 - Insurance industry could sharpen the tools, provide training
 - FAs should provide advice at all stages of retirement
 - Catch individuals earlier, provide guidance for longer
 - Place a measure on the risk taken by the individual who keeps longevity and investment risks i.e. 50% chance of outliving funds, 70% chance of reaching 80, replacement ratio will drop to 50% if you survive to 85.

THANK YOU!

**COMMENTS?
SUGGESTIONS?
QUESTIONS?**