

The Cost of Retirement Survey

By Bruce Cameron

The cost of retirement is far greater than most pensioners believed at retirement it would be. Only 40 percent of pensioners now believe they saved enough for retirement.

But the message is getting through to retirement fund members - 75 percent of active members now believe they need to start saving for retirement at age 20, although 19.4 percent are of the opinion that it can be left until age 30.

However, only half of active members say they are on track for a financially secure retirement.

These are two findings of the Sanlam Employee Benefits Benchmark annual retirement survey.

For the 2010 survey Sanlam included extensive research on the attitudes and experience of both active retirement fund members and pensioners.

The pensioners surveyed have a message for those people still saving for retirement: you must start checking whether you are saving enough money for retirement more than 20 years before you retire.

Even those pensioners who believe they saved enough are worried that their money may run out if they are in retirement for an extended period because of increased longevity.

About 30 percent of the surveyed pensioners, whose average age was 67, indicated that they are already experiencing financial difficulties and are being forced to cut back on non-essential items.

Almost 75 percent of the pensioners get a pension of less than R10 000 a month. Against this, the average amount active members who were surveyed earn now is R15 449 a month.

The survey confirms earlier research by Alexander Forbes, which showed that retirement fund members are going into retirement without having saved for long enough and are compounding the effects of their lack of savings by retiring too early. And most pensioners find they have not taken sufficient account of the costs of retirement, particularly medical expenses.

Of the 250 pensioners surveyed, the average period of contributing to a retirement fund (an occupational fund or a retirement annuity) was 26.6 years.

The average age of retirement was 59, with almost 60 percent having no choice about retiring early because of retrenchment or disability. Consequently, their pensions are lower than expected.

Most active members expect to have retired by the age of 61.

Other facts revealed by the pensioner survey include:

- The vast majority say if they could have done anything differently before retiring it would have been to plan better and save more;
- More than half the pensioners believe you have to save a capital amount for retirement in excess of 10 times your final annual income.
- In worst-case scenarios, 12.1 percent of the pensioners forced into early retirement say that early retirement had "huge financial implications" for them, with 16 percent depending on others for additional income, 3.4 percent having to sell their homes and 5.2 percent having to give up their medical scheme membership;
- Almost six percent of the pensioners live with relatives;
- Many pensioners go into retirement having to use lump sum payments from their retirement savings or other savings to pay off debt, and almost six percent continue to pay off a home loan;
- About 35 percent of the pensioners had to cut back on spending because of the economic recession;
- About 54 percent of the pensioners have other investments apart from their pensions;

- Of the surveyed pensioners, 16.4 percent changed jobs at some stage, and of these 44 percent cashed in their retirement savings, leaving them worse off in retirement;
- More than 40 percent of the pensioners received pre-retirement advice from employers;
- Of those who received financial advice before retiring, 71 percent received advice based on a financial analysis, with the vast majority then understanding their needs in retirement;
- Most pensioners spent lump-sum payments received at retirement within 30 months; and
- There are 27 percent of pensioners who still manage to save money every month.