

Retirement fund trends: here's how they will affect South Africans

 By [Craig Chidrawi](#)

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According to the South African Treasury, only six out of every 100 South Africans will be able to retire comfortably.



Source: Supplied. Craig Chidrawi, head of retirement at NMG Benefits.

A recent [poll](#) shows more than a third (35%) of middle-class South Africans aren't putting any money at all away for their retirement.

The two biggest reasons that retirement fund members don't have enough money to retire on are that they don't save enough, and that they don't preserve their retirement assets when they move jobs.

And if you think you can easily catch up on your retirement savings by making additional contributions later, you're in for a rude awakening. Depending on when you start contributing again, the required rate could be anything ranging from 17% to 50% of your salary.

One of the positive effects of Covid-19 is that it made South Africans more aware of the need to put themselves on the road to good financial health and a comfortable retirement. To do this, it's important they know the key trends in the retirement fund industry right now, and how they affect them.

The 'two-pot' system

Government's proposed new 'two-pot' retirement system (which is currently set for 2024) tries to balance the need to survive financially both now and after retirement. Basically, the system will see South Africans put one-third of their

retirement contributions after the effective date to a savings pot that allows early access, and two-thirds to a pot that is used to buy an annuity after retirement.

The benefit is that it will prevent people from having to take out expensive short-term loans, while being forced to preserve two-thirds of their funds over the long term and not cashing in when they change employers. The downside is that any withdrawals are fully taxed and erode their capital. The bottom line: get advice.

Growing digitisation

Like most industries, the retirement fund sector is rapidly digitising. This means retirement fund members can easily monitor their funds' performance and will be able to have greater insight when they discuss their options with a retirement counsellor. In fact, using digital tools to understand the retirement income they are likely to receive is an important part of proper retirement planning.

More annuity options

The days of being locked into a retirement income that was chosen for South Africans are over. There are various forms of guaranteed retirement annuities that provide an income for life (and a spouse's life, if this option is elected), or pay a lump benefit on death.

It's important South Africans get advice on which retirement annuity works for them – there are options that can secure their fixed living expenses by means of a guaranteed annuity to ensure these costs are covered for life, and a living annuity with any residual capital to be able to leave some sort of financial legacy for their family.

ABOUT CRAIG CHIDRAWI

Craig Chidrawi is head of retirement at employee benefits advisory firm NMG Benefits. This includes retirement-fund consulting, and actuarial-, investment consulting- and administration services in South Africa. He has 30 years of experience in the employee-benefits industry.

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