South Africans don't make provision for retirement

According to UK-based, multinational banking and financial services institution HSBC, 57% of retirees around the world fear that they will run into financial trouble and expect their savings to run out about halfway through retirement, but despite those concerns, most admit that they are not doing anything about it.

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Closer to home, financial services group Sanlam reports that of those employees in South Africa who earn a salary, only 7% of that salary goes towards retirement savings, which is half of what should be saved in order to have a suitably funded retirement. Among current retirees in the country, Sanlam estimates that 51% can't make ends meet, 33% are still in debt and a staggering 53% support adult dependants.

"The truth is that most people - especially those in the first world - are not actually being delusional if they feel optimistic about their longevity," says David Brown, managing director of Profile Corporate Services, a company that develops payroll payments systems and associated products that integrate with all the major payroll systems in South Africa. "According to the World Health Organisation (WHO), people around the world are living longer than ever before, with the global life expectancy having increased from 64 years in 1990 to 70 years in 2011, amounting to an average increase in life expectancy of eight hours a day over the last 20 years. The WHO says this dramatic gain in life expectancy has no signs of slowing down or reversing, which means that people therefore need to start planning on living that long and making provisions for long retirements."

Casual attitude

Brown says even though the WHO's annual world health statistics report revealed that life expectancy has actually fallen in a few countries, including South Africa, this does not mean that South Africans should have their heads in the sand about saving for retirement. Statistics revealed that South Africans have a rather casual attitude towards retirement. Research from Eighty20 - a research company which provides businesses, marketers and others with strategic and actionable insights gleaned from data - claims that South Africans spend as much on their DStv satellite television subscriptions as they do on retirement annuities.

"Forced pension contributions are made by those who are part of the formal sector employment, which - according to the latest quarterly employment statistics from Statistics South Africa - are around 8.4 million jobs, or about 16.5% of the population," Brown says.

According to the South African Reserve Bank, total contributions of employers and employees to retirement funds and consumer contributions to annuities and group pension funds amounted to approximately 16% of a household's disposable income in 2012, which added up to a total of R311bn - up from R263bn in 2011 - which places South Africa among the top 15 of the world's pension industry ranks, as per statistics cited in an article recently published in the Mail and Guardian newspaper.

Forced pension not enough

Even with this high ranking in the world for retirement funding, the informational flow regarding employee contributions to their retirement fund is only one directional - between the employer and the retirement fund administrator. "With the recent demise of some high profile financial service providers, the bi-directional flow of information between employer and service provider becomes vitally important to ensure that the employee's investments are being administered accurately and effectively," says Brown.

"Despite those impressive statistics, I agree with many of the industry experts who say that a forced pension will not be enough to ensure a comfortable retirement and employees seriously need to seriously consider investing in a complementary retirement annuity as well," Brown says. "Now is a great time to invest, because the retirement annuity market in South Africa is about to undergo a major shake-up with the launch of a range of low cost and flexible products following the National Treasury's discussion documents on retirement reform, which has shone the spotlight on the traditionally high cost of retirement products in the country."