

South African Payroll Association Conference

Advanced Retirement Planning

11 September 2018

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Warning

- Not the presentation you were expecting today!
- September 2016 SAPA presentation
 - Changing view of retirement
 - Alternative recipe for retirement
- Let's go more extreme – what is the worst that can happen?
- I will be making controversial statements – please disagree with me
- Final presentation – biggest challenge keeping you awake!

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8 Important things to know

8 Most Important things to know

8 Most Important Considerations

8 Very Important Considerations

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8 Important Considerations

INVESTMENTS AND FINANCIAL PLANNING



**“I retire on Friday and I haven’t saved a dime.
Here’s your chance to become a legend!”**

Why share my experiences with you?

- Very low levels of financial education/literacy in SA
- Very low levels of understanding of retirement planning and what responsibilities members have
- Very high levels of member apathy in retirement funds – 80%
- A responsibility as employers:
 - To help increase levels of understanding
 - Help members take responsibility for their retirement planning
 - Make responsible and accountable default decisions on behalf of members

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1. Longevity

Did you know?

Japan gives out a silver cup to people who live past the age of 100 that cost \$65. Due to the amount of people living past 100, they might have to discontinue the award. In 2014, there were more than 29,000 recipients, compared to 153 when the program began in 1963.



MightyFacts.com

FEARLESS 26 / MARCH 2, 2014

SPECIAL HEALTH DOUBLE ISSUE

TIME

THIS BABY COULD LIVE TO BE **142 YEARS OLD**

Dispatches From the Frontiers of Longevity

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1. Longevity

- Why?
 - Work 25 to 65 years – 480 pay checks to save money for retirement
 - Live to 142 years – 942 pension payments needed
 - For every R1 million saved for retirement you can draw income of R2 904/m
 - Retire at age 65, inflation 5%, investment growth 8%
 - If you live to age 80 you can draw income of R6 750/m for every R1 million
 - Is Longevity really a problem?
 - SA life expectancy 57.44 years (World Bank)
 - In 2050 expected to be 63.2 years
 - May 2018 article oldest man alive at 114 is Capetonian?
 - What if you are the one? Can you afford not to plan for it?

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2. Affordability

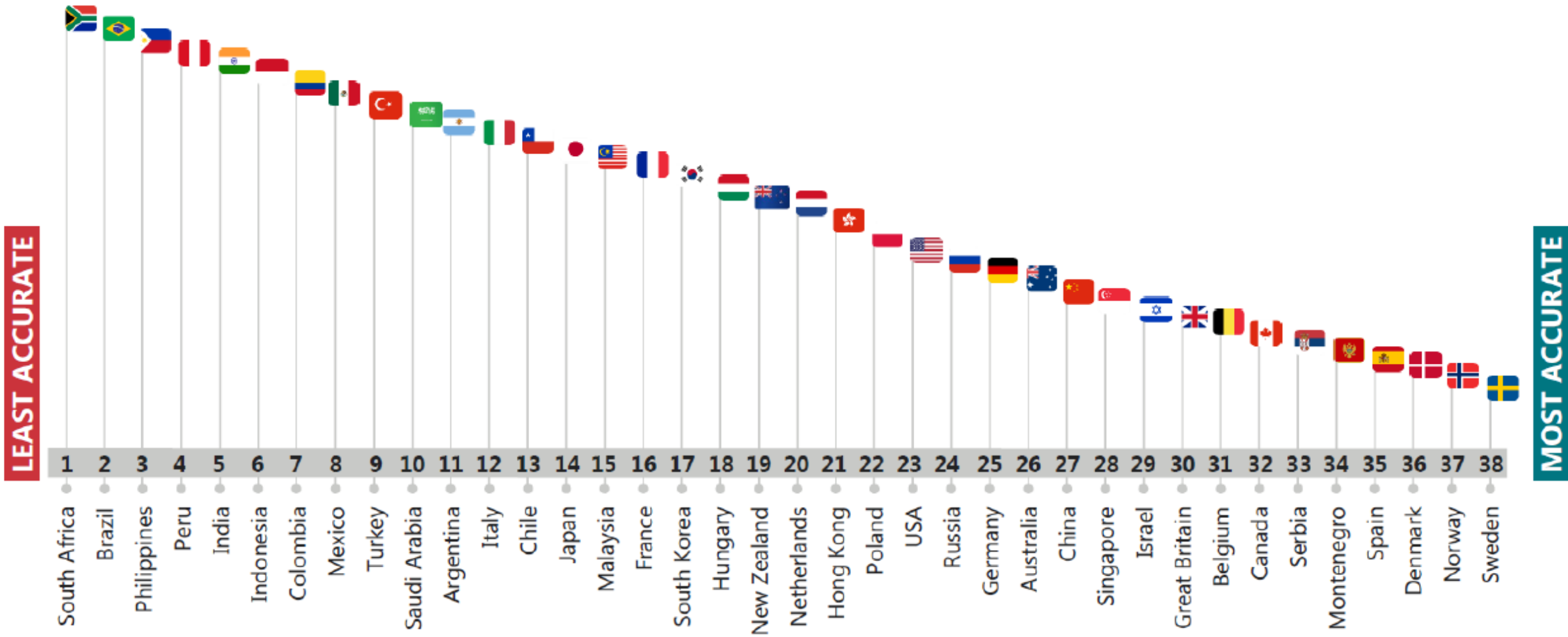
- SA's "poor" savings culture – SA's savings as % of GDP is low and getting lower
- Unemployment rate at 27.2%
 - Lose job, lose ability to save for retirement
 - Is it realistic to think people will work longer one day?
 - Providing financially for more and more people
- Poverty and low income levels negatively impact on SA's ability to save
 - 50% of SA's survive on less than R992/month – considered poor (2015)
 - People living under extreme poverty/food poverty line 14 million (2015)
- Spending not savings culture – Easy access to credit, disincentive to savings
- Tough economic times – SA's lost decade
- Basic financial literacy must be improved

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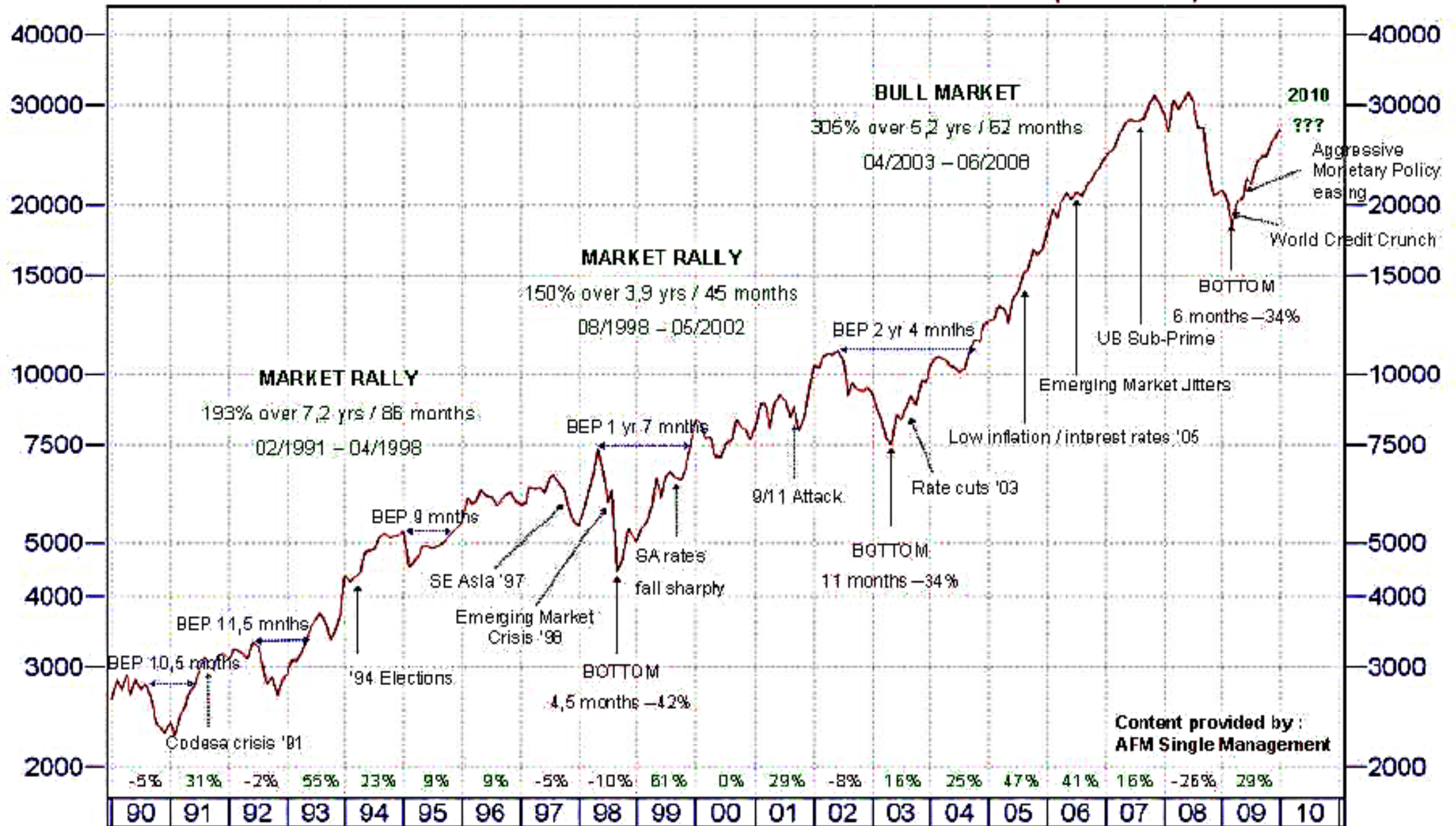
3. Investment Performance

- We have potentially entered an era of lower investment returns than previous decades
- Lower projections, lower benchmarks, lower expectations – rude awakening
- Taking risk is not being adequately rewarded
- We are a miserable bunch of people
 - Ipsos Perils of Perception survey – highest level of misperception in the world
 - Negativity, pessimism, doom and gloom
- Danger is now fast becoming being too conservative

How accurate are SA's perceptions about SA?

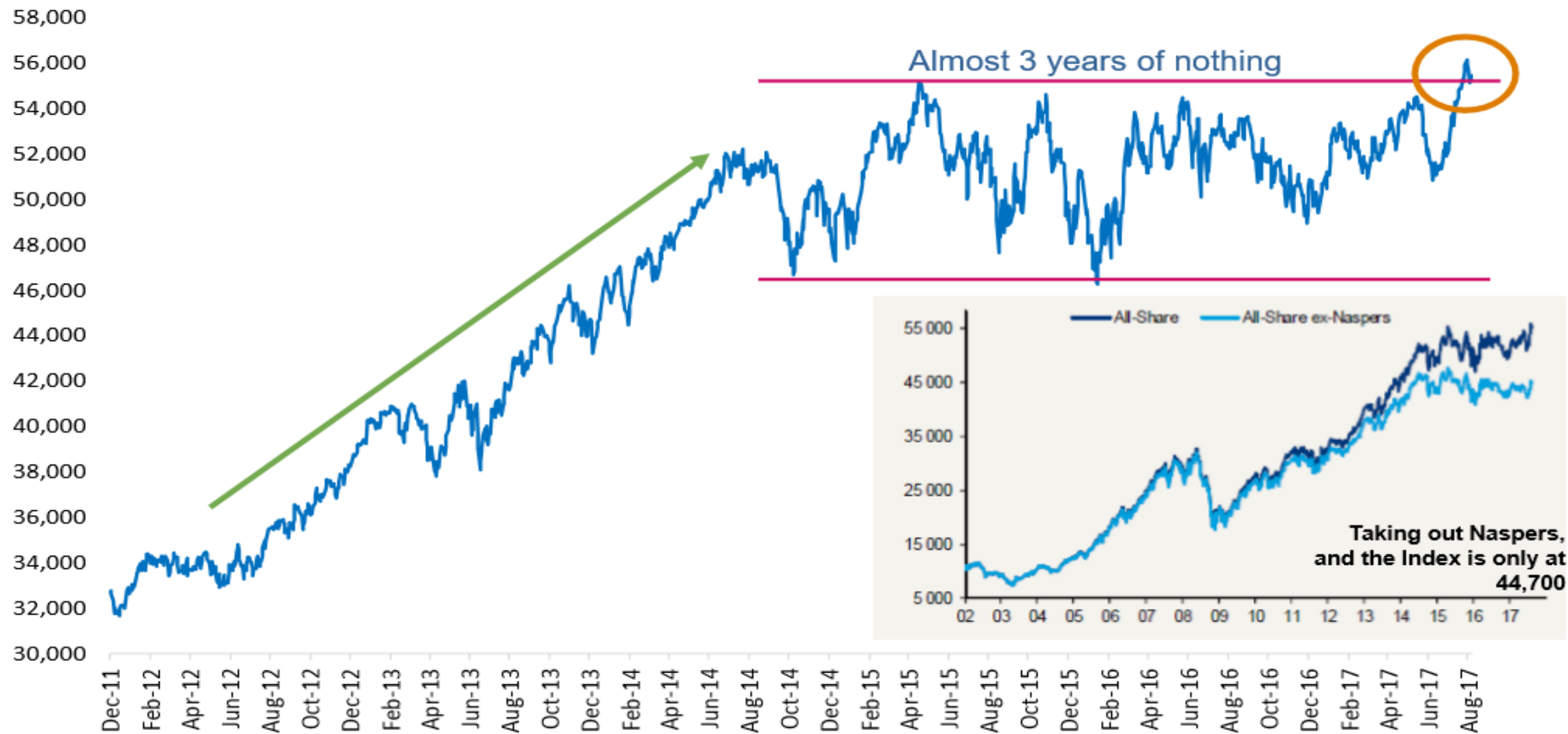


ABSA FUND MANAGERS - FTSE/JSE ALL SHARE OVER 20 YEARS (1990 - 2009)



A new record high

FTSE/JSE All Share Index



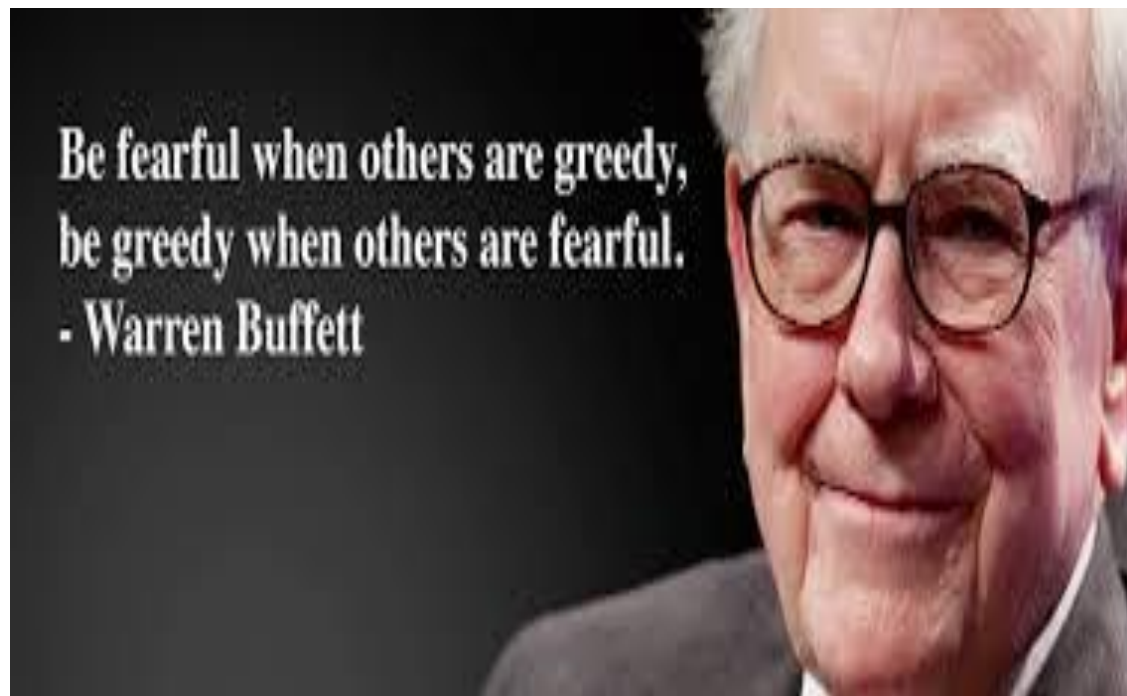
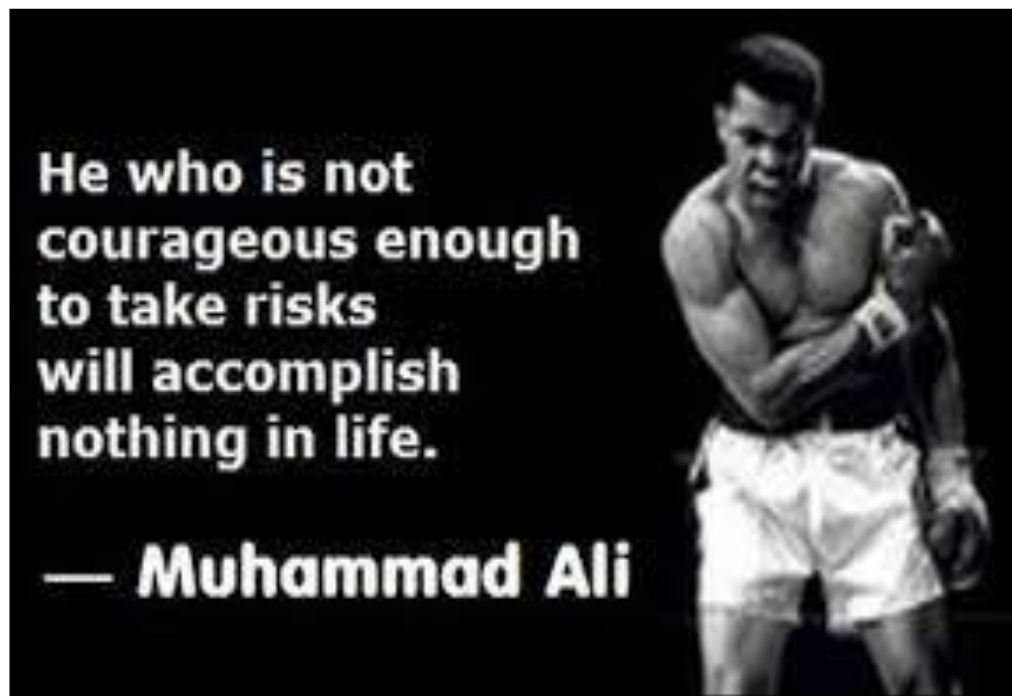
Market Performance at 31 July 2017

Be careful of V-shaped recovery!
It often happens very quickly

Indices	1 mon	3 mon	1 year	3 years	5 years	10 years
All Share Index (ALSI)	7.03%	2.9%	7.6%	5.5%	13.1%	10.0%
Shareholder Weighted Index (SWIX)	6.3%	2.2%	4.7%	6.5%	13.6%	11.0%
CAPPI 40	6.8%	2.8%	7.3%	4.6%	13.1%	13.3%
All Bond Index (ALBI)	1.2%	2.2%	7.2%	7.3%	6.1%	8.5%
Barclays BEASSA SA Government ILB Index	0.0%	-0.2%	-0.4%	4.5%	6.2%	9.2%
Short-term Fixed Interest Composite Index (SteFI)	0.6%	1.9%	7.7%	7.0%	6.3%	7.2%
SA Listed Property Index (SAPY)	3.7%	4.1%	3.3%	13.8%	12.7%	14.6%
MSCI All Countries	4.0%	4.4%	12.9%	13.3%	22.0%	9.2%
Citigroup World Government Bond	2.1%	2.0%	-6.3%	7.0%	9.9%	9.7%
Rand US\$	0.7%	-1.4%	-4.8%	7.2%	10.0%	6.4%
Consumer Price Index (CPI)		5.1%	5.4%	5.7%	6.1%	

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3. Investment Performance



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4. Value of tax gearing

- Advanced Retirement Planning is impossible without detailed, careful tax planning
- Understand this is one of the few times in your life that SARS will be giving you something back
- Ensure you are making optimal use of the income tax advantages inherent in certain retirement planning instruments
- Even better than paying off debt!

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5. Impact of Costs

- Costs matter – big time!
- Lower return environment means bigger focus on cost of investing
- Complex environment – comparisons are difficult – on purpose?
- Basis of determination of cost differs
 - % of Contributions
 - % of Salary
 - % of Assets under Management
- Different costs matter differently at different times to different people
 - Cross subsidization
 - Very innovative solutions starting to appear
- Proper comparisons showing cost effect over time is crucial

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5. Impact of Costs

- In General 4 Costs to consider when it comes to Retirement Planning
 - Platform or admin fee – more than 0.5% is excessive
 - Investment fund management fee – more than 2% is excessive, passive is considerably cheaper, combination of active and passive may be best option
 - Advice fee/Consulting fee – depends on the investment amount or size of the retirement fund, look at combination of upfront and ongoing fees, ensure you get value for the money you spend – comparisons and second opinions important
 - Risk Insurance Premiums – careful balance needed

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6. Replacement Ratio Calculation

- Most important tool in Retirement Planning before retirement
- Dependent on a number of variables – not an exact science
- Invaluable in showing potential shortfalls
- More important to track progress and as a scenario planning tool
- Quick and easy calculation from a Pension Fund Benefit statement with 2 simple questions – 3 minutes

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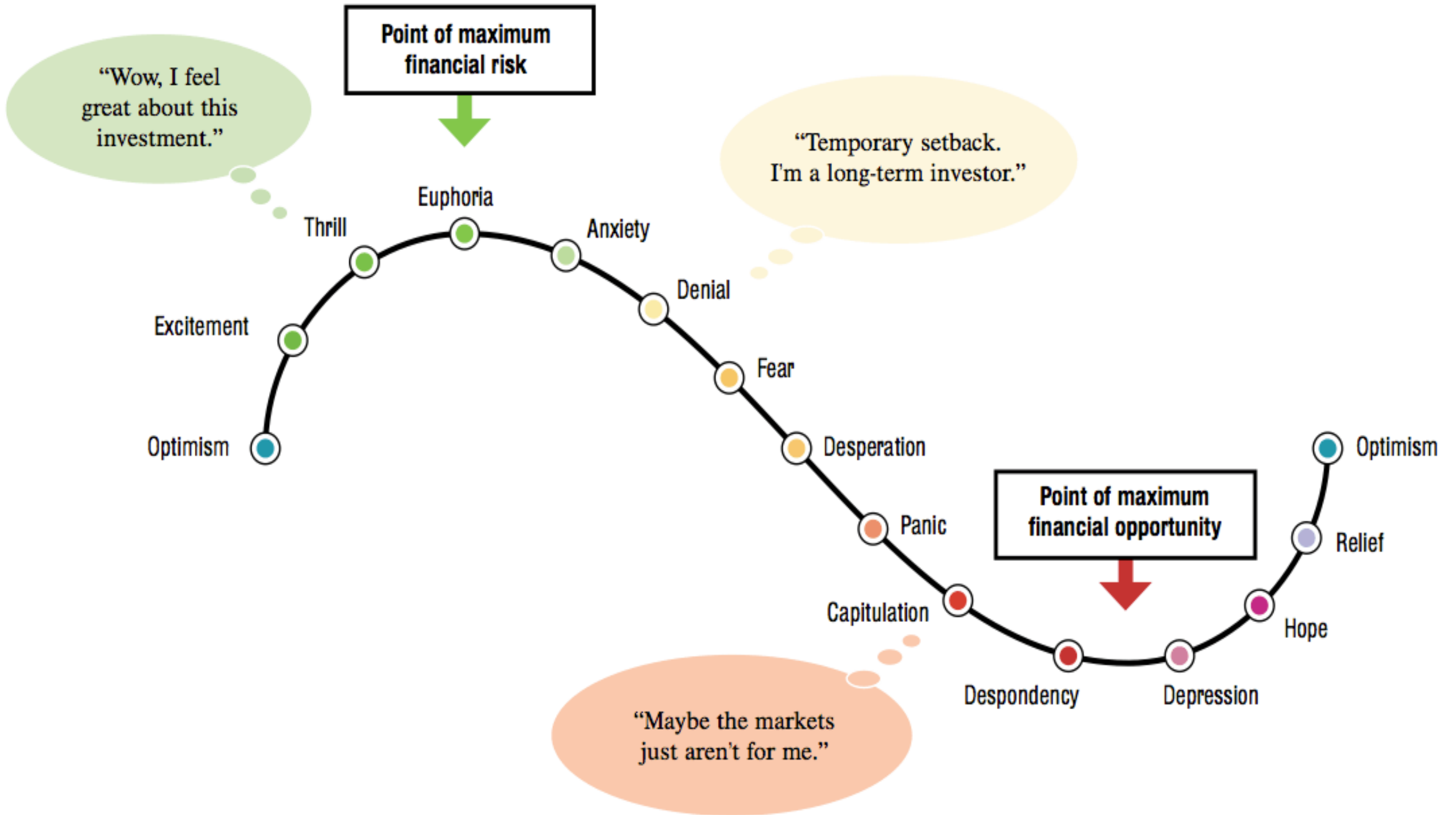
7. Calculation of a safe draw-down rate

- Most important tool in Retirement Planning after retirement
- Determine what income level will be sustainable when retired
- Dependent on variable of life expectancy – not an exact science
- Shows the importance of providing for inflation and longevity
- Quick and easy calculation from a Pension Fund Benefit statement with 2 simple questions – 2 minutes

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8. Investor Behaviour

- S&P 500 return over the last 30 years to end 2016 – 10.16% per annum (DALBAR)
- Average equity investor in the US return over the same period – 3.98% per annum
- This is crazy! Why?
 - Fees
 - Portfolio compositions – active vs passive debate
 - Most significant contributor? Investor behaviour
 - Huge inflows around highs in for example 2000 and huge outflows during Global Financial Crises in 2008
- Similar experience in the UK (JP Morgan)
 - Over the last 20 years missing only the best 10 days
 - Reduced your return from 6.3% to 2.8%



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8. Investor Behaviour

- What to realise:
 - Volatile markets are perfectly normal
 - Markets will never go up in a straight line
 - There is very little correlation between what is happening in our economy and our markets
 - We are influenced dramatically by what happens in the world at large and in emerging markets in particular
 - You have to take risk over the long term – just manage it
 - Timing the markets is far less effective than time in the market
- Don't panic, don't make emotional decisions – increase your time horizon

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8. Investor Behaviour

- Valuable Investment Life Lessons:
 - You can't cheat time – there are no shortcuts to achieving anything meaningful
 - Everything worthwhile in life can only be achieved by taking risk – manage the risks you expose yourself to
 - You can't predict the future – focus on doing your best and allow time to compound success and mitigate your mistakes
 - You don't have to always take action – sometimes doing nothing works
 - Don't get too attached to anything
 - You're responsible for your own well-being – take ownership
 - Simple and boring is sometimes good – ignore the fads, trends and fashionable

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Thank you

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