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Retirement 101

South Africa is sitting on a retirement timebomb, with the data aligning very closely to a widely quoted National Treasury statement that only 6% of the country's population is on track to retire comfortably.

Some of the key reasons why so many South Africans will face a bleak reality after their working lives come to an end are affordability and lack of planning. A frightening number of people have not formally planned how they will fund their retirement. Of those who have, few are monitoring their progress. Most don't know whether or not they are on track to meet their goal to be able to support themselves in retirement, never mind in any comfort. The upshot is that many South Africans pay little attention to their life's biggest investment.

Something's gotta to give

There are two reasons people fail to properly prepare for their retirement: complexity and human nature. First of all, the perceived complexity of retirement planning is completely unwarranted. For years, planning for retirement has been cloaked in layer upon layer of technicality and unnecessary terminology. The truth is a whole lot simpler. Forget about the terms, the tax deductibility and all the technicality. In its simplest form retirement planning is nothing more than saving enough capital to fund an income one day when you no longer earn one. It is as simple as that. Obviously, there are products and tax relief that assist you with your planning but they are nothing more than vehicles to get you closer to your goal of having enough. Secondly, human nature is probably the greatest barrier to people successfully planning for the day they no longer earn an income.

Opportunity costs

It is a well-known fact that you should start saving for retirement as soon as you start working. However, tell the average 20something that they need to follow this tried and tested advice and you are bound to be met with a blank stare or an incredulous laugh. Of course, it is entirely understandable that a young person should feel this way. The thought of preparing for the end at the beginning seems preposterous. Besides, young people have better things to spend their money on and the thought of retirement is the last thing on their minds. But it should be and the truth is that there is no mystery to retirement planning, just the barrier of peoples own human nature. The secret to retirement planning is simple: Save 15% of your gross earnings for your whole working life, invest those savings in a well-diversified high equity fund.

If you fail to plan, you are planning to fail (Benjamin Franklin)

The 2020 Brand Atlas Survey on retirement planning in South Africa found that more than 60% of those who had been (or still were) members of an employer's



retirement fund said they knew little or nothing about the fund, or were not interested. A key issue that cropped up time and again in the data underlying these first two reports was the perception that people felt they just could not afford to save for retirement. The other side of this argument is that people really cannot afford not to save for retirement. Even before the pandemic, times were tough for many people. Still, treating retirement saving as discretionary spending, as a nice-to-have rather than a necessity, is extremely problematic. People's survival in their old age should be an essential consideration, not a low priority item.

Facts and figures

The problem of the majority of South Africans not being able to retire with dignity shows no signs of improvement: 49% of people surveyed say they don't have a retirement plan; last year it was 46%. The number of South Africans who feel good or pretty good about their retirement plan remains very low at 30% (2019: 33%).

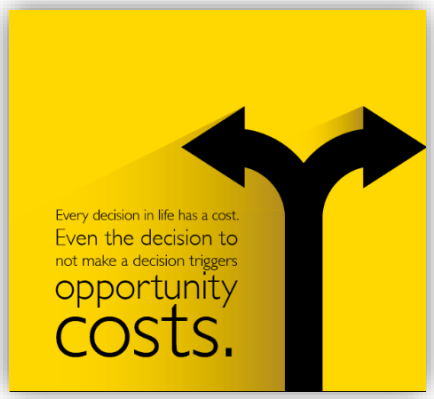
The fact is that 69% (2019: 67%) of people surveyed said they had no retirement plan at all, or just a vague idea. This highlights the need for more education on this topic. A mere 6% of South Africans surveyed said they were executing a retirement plan that they had properly thought through, the same as last year and aligned closely to with National Treasury's estimate that only 6% of South Africans were on track for a decent retirement.

According to information released by StatsSA in April 2019, 49.2% of South Africa's total adult population of 35.1 million live below the upper-bound poverty line. Industry guidelines on how long people need to save for retirement vary, but few would disagree that we should be saving for most, if not all, our working life. Unfortunately, this message is not getting through. A large proportion of South Africans believe they can set themselves up for a decent retirement in a relatively short time. This is one reason why people frequently leave it so late, often too late, and almost always miss out on the exceptional benefit of compound growth. Almost half of South Africans surveyed believe that a comfortable retirement can be achieved by saving for 30 years or less.

Are you on track?

Of the respondents who said they had some sort of retirement plan, 75% were worried about whether they will have enough to live on after they retire or feel unsure about this. This is up from 72% last year. This statistic seems at odds with another in the same survey: 67% of respondents said they expected to be able to preserve their standard of living in retirement. This inconsistency talks to widespread confusion about what is required to preserve one's lifestyle in retirement.

High levels of concern were noted across all income brackets: 76% of those with total monthly household income (HHI) of less than R20k said they felt concerned or were unsure about having enough money in retirement, as did 76% of those with a HHI between R20k and R50k, and 72% of



Mastering Opportunity Costs

Understanding how opportunity costs and the influence it has on your financial life is possibly the most valuable lesson to learn in 2021

What do economists think about strawberry smoothies? That depends on how good the kiwi flavour is instead—plus a range of other choices. Which stirs up the idea of opportunity cost.

How is opportunity cost defined in everyday life?

"Opportunity cost is the value of the next-best alternative when a decision is made; it's what is given up

We can't have everything we want in life. This is where scarcity factors in. Our unlimited wants are confronted by a limited supply of goods, services, time, money and opportunities. This concept is what drives choices—and, by extension, costs and trade-offs.

An example of deciding to buy a R30 smoothie at the mall. Many people would view the choice as a single one based on whether you want the drink.

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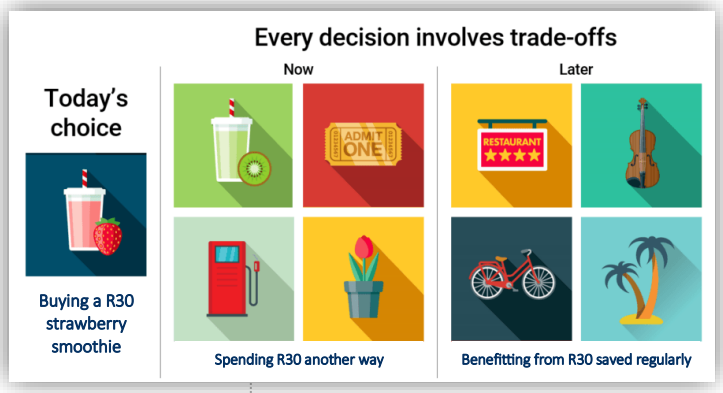


those whose HHI was upwards of R50k per month.

Get real

This underlines once more that achieving a financially secure retirement is less about how much we earn, and more about how much we engage in the process, inform ourselves, and save. This data, remember, is for respondents who said they do have a retirement plan. This shows that having a plan is not enough. It also needs to be effective and realistic, and there needs to be follow through. A workable plan requires a specific goal and strategy to achieve it. This is easily determined with the help of a Financial Advisor who will help you calculate how much money you need to retire comfortably, and how much you need to save on a monthly basis, to get there.

The sense of realism created by so many respondents acknowledging the likelihood they will need to continue earning an income in retirement is somewhat undermined by the fact that 68% of respondents said they expect to enjoy the same or similar standard of living when they retire. The notion that 75% of respondents worry about having enough to live on after they retire and 77% expect to need some additional income, yet 68% anticipate they will be able to maintain their standard of living just doesn't add up. People do not seem to connect the dots between investing now and preserving their lifestyle in retirement. There also seems to be little acceptance that retirement is an inevitability, rather than a choice. In an economy where the unemployment rate hovers at around 30% even before the pandemic, there is pressure on older people to retire, even more so because of South Africa's bottom-heavy population pyramid. In an ideal world we would all be happy to hand over the reins and step into retirement when the time came. In reality, many will have to work longer than they would like to, while others will be forced to stop working before they feel ready, psychologically or financially.



To have or have not

For most, retirement is a vague concept that looms in the distance, mostly ignored and rarely in focus, until suddenly it is upon them. A longed-for moment for many, the eagerly anticipated unshackling from fulltime employment and the prospect of more leisure time can quickly be overtaken by worry and a sense of futility, brought on by a lack of routine, of purpose and adequate income. In the end, much of the longed-for free time is spent fretting about unexpected bills and money management. But it does not have to be that way, at least not the financial aspect. A properly thought-through retirement savings plan put in place early in a working life and revisited and adjusted annually would make retirement a very different experience for most.

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Instead, you should wear a unique pair of 'economist glasses'" to see the decision differently, asking:

How much do I value this?

What am I giving up now to have this?

What am I giving up in the future to have this now?

Our inclination is to focus on immediate financial trade-offs, but trade-offs can involve other areas of personal or professional well-being as well—in the short and long run.

Don't only consider **explicit alternatives**—the choices and costs present at the time of decision-making—but also **implicit alternatives**, which are "unseen" opportunity costs.

It's about thinking beyond the present and assessing alternative uses for the money—that is, not being shortsighted.

Understanding and using the principals laid out in opportunity costs is one of the most powerful lessons an individual, interested in growing wealth, can learn. It is a fundamental skill required for long term financial success .



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What is a Bear Market?

A bear market is when a market experiences prolonged price declines. It typically describes a condition in which securities prices fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment. Bear markets are often associated with declines in an overall market or index like the S&P 500, but individual securities or commodities can also be considered to be in a bear market if they experience a decline of 20% or more over a sustained period of time—typically two months or more. Bear markets also may accompany general economic downturns such as a recession.

What is a Bull Market?

A bull market is the condition of a financial market in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market but can be applied to anything that is traded, such as bonds, real estate, currencies and commodities. Because prices of securities rise and fall essentially continuously during trading, the term "bull market" is typically reserved for extended periods in which a large portion of security prices are rising. Bull markets tend to last for months or even years.

The road to ruin ...not saving

Disturbingly, 18% of respondents fail to save because they have no plans to retire. While this is a commendable sentiment, it is, of course, not entirely up to them. No one is, by force of will, immune to ageing, incapacity or redundancy. If it were otherwise, there would also be no need to take out medical insurance as no one plans to get sick. Saving for retirement is effectively that: insurance against outliving our working life.

The data shows that many South Africans prioritise their current lifestyle, at great expense to their future selves. It is a terrible trade-off because what they might gain in the short-term (5-10% more take-home pay) is dwarfed by the prospect of a 50-90% decline in lifestyle post retirement. That, invariably, is what happens when people leave their saving too late, or don't save at all.

In conclusion: if only youth knew, if only age could

Many South Africans face a bleak retirement, financially at least, and nothing in the Brand Atlas survey suggests that this situation is changing. As was the case last year, only around 6% of respondents felt comfortable with their retirement prospects.

Some of this is down to economic hardship; it is simply impossible to save without a minimum level of income. More than half the respondents indicated severe financial stress, which would make retirement saving difficult, especially during the current economic crises.

Beyond that, it is not just an income issue, though, because people in the low, medium, or high-income brackets are equally worried about making retirement ends meet. Rather, it is a savings problem that is rooted in the widespread lack of retirement planning, which in turn manifests hubris and unrealistic expectations, financial ignorance and ill-discipline, and disengagement from the funding process.

Around 40% of respondents believe their retirement can be funded within 25 years, seemingly oblivious to the importance of compounding returns. This helps explain why more than 60% of members of corporate pension schemes cash in their fund on leaving their employer. And why for so many South Africans saving for retirement is just "not a priority at this stage", as though they can make it up later. Realistically, they cannot. A savings plan that delivers a 60% income replacement ratio after 40 years of saving would replace only 30% of final income after 25 years. These people would have to save twice as much, to make up the shortfall. It would require a massive, and improbable cut-back to their accustomed lifestyle. Along similar lines, two out of five respondents under the age of 35 expect to retire before age 60, oblivious to the fact that retiring early not only cuts into their saving years, but also adds to the years those savings must last. These are all illusions that some timeous retirement planning (or basic financial education) early on in their work life would quickly dispel. But apparently the preferred route is to have those illusions shattered by reality.

So, who should read this? Twenty-somethings, but they won't!



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From caves to computers

As we enter a new decade (yes, according to the American Astronomical Society the decade started on 1 January 2021), we wonder what innovations the next ten years will bring. This article looks back in time at 10 of the most important financial innovations in history.

In the beginning - commerce

Our ancestors bartered basic commodities from prehistoric times, but commerce – the exchange of goods and services over long distances - is a more recent development. Historians date the existence of long-distance commerce to as far back as 150,000 years ago. There is evidence that some of the earliest traded commodities were flint and obsidian, substances used to make primitive tools.

Greasing the wheels - money

While the original form of trade would have been barter - the exchange of goods - the invention of money greatly simplified and promoted trade. The first objects used as money were commonly available objects which, besides having an intrinsic value, were also acceptable to people as a medium of exchange for other goods and services. This type of money is called "commodity money" and examples from history are numerous, including cattle, pigs, salt, rice and seeds. In medieval Iraq, bread was used as an early form of money while the Aztecs used cocoa beans as money.

Coining it – metal coins

Ultimately, everyday commodities, such as cattle, are inconvenient as a store of value for commercial trades due to their inconsistent quality, their indivisibility and because they are easily perishable. As soon as mankind discovered metal, this was used to make utensils and weapons. Due to metal's relative advantages, such as the ability to easily calculate its value, its divisibility, and its ease of transportation, it became the main medium of exchange. Originally, metal was used in its natural state but later it was fashioned into practical shapes, viz. coins, each having definite form and weight, and receiving marks indicating value. This development made transactions faster and easier. The first coins seem to have been manufactured in India, China, and around the Aegean Sea (situated between Greece and Turkey) between 700 and 500 BC. Probably, the first historical character to have his image appear in a coin was Alexander the Great around the year 330 B.C.

Pressing on – paper money

Banknotes began to be used in China during the 7th century AD. Before the use of paper, the Chinese used circular coins that could be strung together on a rope. Rich merchants in China found that their strings of coins were too heavy to carry and instead coins were left with a trustworthy person, and the merchant given a slip of



"It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure that you haven't lost the things that money can't buy."

George Lorimer



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Is cash dead?

Reports of the death of cash have not been exaggerated. Professor Chris Speed, chair of design informatics at Edinburgh University, says: “Cash is in retreat, so someone is going to have to pull the plug.” New Money Review editor Paul Amery argues: “The death of cash has been pushed further into the future, because governments are intervening to keep it alive, but they’re only delaying the inevitable.” He predicts its disappearance by around 2030. Fearing unless they launch digital currencies of their own, they risk losing control of the monetary system, several leading central banks are working on central-bank digital currencies.

China is doing more to shape the future of money than anywhere else. It is expected to launch a digital yuan, potentially becoming a cashless society, within the next few years. However, Databricks global financial services industry leader Junta Nakai doubts whether, “for reasons of national security and equality”, most governments will permit cash to disappear.

paper recording how much money he had left with that person. The notes could be traded for goods and the holder retrieve the coins from the holder. In the 13th century, Chinese paper money became known in Europe through the accounts of travellers, such as Marco Polo.

A risky business - insurance

Insurance is one of the oldest financial innovations, predating paper money and even coinage. The first methods of redistributing risk are thought to have been practiced by Chinese traders as long ago as the 3rd millennia BC, who, when travelling treacherous river rapids, would redistribute their wares across many vessels to limit the loss due to any single vessel capsizing. The first recorded written insurance policy dates back to about 2000 BC, with evidence found that the Babylonians developed a system whereby if a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen.

Bank on it - banking

The history of banking is said to have begun around 2000 BC in Assyria and Babylonia, when merchants made grain loans to farmers and traders who carried goods between cities. Banking, in the modern sense of the word, can be traced to the rich cities of Florence, Venice and Genoa in medieval and early Renaissance Italy. The word *bank* is from the Italian *banca* meaning "bench” or “counter". This is because benches were used as desks or exchange counters by Florentine bankers.

Share and share alike – companies and stock exchanges

Size tends to count in business; in modern times, companies dominate economic life in the global economy. Entities which carried on business and were the subject of legal rights were found in ancient Rome and in ancient India. The innovation of joint ownership made a great deal of Europe's economic growth possible following the Middle Ages. The technique of pooling capital to finance the building of ships, for example, made the Netherlands a maritime superpower. The development of stock exchanges - markets where shares are traded - gave companies access to finance from vast numbers of investors. Unofficial share markets existed across Europe through the 1600s, where brokers would meet in or outside coffee houses to trade. The Amsterdam Stock Exchange, created in 1602, became the first official stock exchange when it began trading shares of the Dutch East India Company.

The plastic revolution - credit cards

The concept of a card, and more particularly a plastic one, functioning as money is relatively new. The idea of issuing a card which could be used to purchase goods on credit from multiple vendors is said to have



been thought out when a forgetful New York banker, having forgotten to bring cash with him, found himself unable to pay for his meal at a restaurant. The story goes that Frank McNamara came up with a new idea - a credit card that could be used at multiple locations. McNamara decided to form a new company – the Diners Club. The innovative part of the new concept was that the Diners Club would be a middleman between the vendor companies and their customers. Instead of individual companies offering credit to their own customers, the Diners Club was going to offer credit to individuals for many companies (and then bill the customers and pay the companies).

Automatic for the people – the Automatic Teller Machine

By the mid-20th century the scale of banking had progressed to the extent that most economically active adults had a banking account. The idea of self-service retail banking developed through independent efforts in Japan, Sweden, the United Kingdom and the United States. Luther Simjian has generally been credited with developing the first automatic teller machine. His machine (which didn't dispense cash) was first installed in 1960 in New York's First National City Bank (now CitiBank). It allowed customers to pay utility bills and get a receipt without the use of a human teller. In 1967 a Barclays Bank branch in North London introduced the first cash dispenser; it used paper vouchers bought from tellers in advance. ATM's are found on every continent including Antarctica.

Commerce in the Information Age - online banking

Today, internet banking is an enormously popular form of retail banking. Surprisingly though, the first form of computer based retail banking was offered as far back as 1981 by four of New York's major banks (Citibank, Chase Manhattan, and two others) using the "videotex" system. If a customer had a terminal, monitor and a phone line, they could access the banking system by using a numeric keypad to send messages down the phone line to their bank. However, these banking services never became popular. Stanford Federal Credit Union was the first financial institution to offer modern online internet banking services in October 1994.

Over time, mankind has progressed from the basic bartering of stone and food to being able to transfer intangible wealth by tapping on a keyboard. Who knows what the future will bring and what innovations await us?



The Big Short

Based on the nonfiction book *The Big Short: Inside the Doomsday Machine* by Michael Lewis, this movie follows a few savvy traders as they become aware—before anyone else—of the housing bubble that triggered the financial crisis in 2007-2008. The movie is known for its clever way to break down sophisticated financial instruments by, for example, having Selena Gomez explain what synthetic CDOs are at a poker table.

