

# It's never too early to save for retirement

TODAY, nobody in South Africa is required by law to contribute a portion of their salary to a retirement fund or savings vehicle - nor preserve what they have set aside.

This means that many people do not even consider saving for retirement until late into their 40s. It also means that the employee has the option to cash in his investment should there be a change in employment.

Most people select this option with little thought for retirement.

Coronation Fund Managers Head of Institutional Business Kirshni Totaram, says: "For most it is normal human behaviour to believe that if they save large amounts closer to retirement, that great returns from the market will bail them out.

"This is very dangerous. It makes the key assumption that the trends and drivers that supported high returns historically remain in place and will continue contributing to growth in the same way.

"We do not believe this to be true. High historic returns in South Africa were a function of a structural change in inflation, resulting in lower interest rates, declining tax rates, the utilisation of underused capacity and productivity gains. All of which provided support to both the equity and bond markets," she says.

"At Coronation we do not believe it is possible to time markets, but rather it is time in the markets that pays dividends.

"We have growing concerns over future inflation rates globally. We believe that the current and previous decade of artificially low interest rates (and the corresponding credit bubble) will result in

## How to retire with dignity

Coronation Fund Managers offers the following tips:

- Start investing for your retirement early - use the current tax advantage of saving in a retirement fund or retirement annuity - it really is an efficient way to save;
- If you start later - you need a higher allocation;
- Choose the right product - to have a decent standard of living in retirement you need to earn returns of at least inflation plus 5 percent a year over 20 years. Hence, it's necessary to assume some risk in the markets over this time through equity exposure;
- Choose a good manager and stick with it. The compounded effect of consistent delivery of long-term market outperformance is material to your investment value at retirement;
- If you have started late, top-up with additional amounts on a consistent basis, especially while the tax incentive remains;
- If and when you change jobs, keep your retirement savings in some form of preservation fund;
- If you are fortunate enough, top-up your pension savings with additional contributions to a long-term unit trust with a good manager;
- Do not chop and change - save for the long term.

higher inflation over the long term. We are also concerned about the returns one can expect from asset classes going forward," says Totaram.

"Faced with this reality there are two options - start saving early or save more to compensate for the effect of lower returns. For most there simply is not enough available cash to save the extra that is needed. Thus, the best option is to start saving early

"We do not believe that South Africa is competitive from a global perspective - we need to increase our productivity and efficiency. Unfortunately labour costs are a large element of this and any reduction under the current environment is unlikely, making us solely reliant on productivity gains," she says.

"It is clear to see that labour productivity growth in South

Africa versus the rest of the world over the last decade has been extremely poor.

"Fiscal policy is no longer prudent. Government has signalled its intention to spend more and run larger deficits. Higher spending not paid through higher taxes needs to be funded through net new issuance of government bonds and money market instruments. As a result, government expects to borrow more than R150 billion a year from the bond and money markets over the next three years," says Totaram.

"Government's resultant larger share of the economy and increases in prices administered by government and its associated parastatals will contribute to crowding out the private sector through higher taxes and municipal rates, higher electricity and water costs and toll roads.