OLD MUTUAL SUPERFUND

MEMBER INVESTMENT UPDATE

Quarter 4 | Dec 2018

ARE YOU SAVING ENOUGH FOR RETIREMENT?

Generally, South Africans do not save enough for retirement. Why? Because most of us are focused on stretching our paychecks to meet our current daily expenses (which keep going up) and paying off our current debt. Retirement is something we will worry about tomorrow.

If we are honest, most of us understand that we are not saving enough. Whilst we recognise we should save more… but how?

Pay yourself first

We all know that our expenses grow to meet our income. A tip to saving more is to save first and then spend what is left. This means that when you get paid, along with your normal monthly fixed bills (bond, rent, car, etc.), put some money into your retirement savings. Your discretionary expenses will soon shrink to fit your remaining money.

Do you really need more debt?

Think carefully before incurring new debt. Ask yourself whether you are able to service your current debt? Is it possible to consolidate your various debts into one loan with a respected institution, which may mean a lower overall monthly expense? If you can't consolidate your debt, consider which debt is most expensive, and focus on paying off this debt first. Then once you have paid off this debt, use the repayment to pay off your next debt quicker and so on until you have paid off all your debt.

Start small and grow

Did you know that you can make tax-deductible retirement fund contributions of up to 27.5% of the greater of your remuneration and taxable income? Whilst most of us can't suddenly increase our contributions to this level, what you can do is increase your contributions by 1% p.a. every time you get a pay increase. So if you contribute 10% this year, next year you increase this percentage to 11% and then watch your retirement savings grow. If your employer's scheme doesn't allow the additional contributions, talk to your employer about introducing this very valuable option.

The more you save, the more you can benefit from tax breaks, and the more your wealth will grow! Take advantages of opportunities to increase your contribution rate, to make additional voluntary contributions, or to save in other investment vehicles if possible.

You can also consider other ways to encourage your retirement savings to grow such as:

Make sure that you have the appropriate investment strategy.

This is much more important than picking the right investment manager. For example, if you were to buy a new TV, you would start by thinking about what kind of TV you need – HD, or a Smart TV, or a LED screen TV. Only then would you think about what brand of TV you want to buy – Samsung, LG etc.

The same is true with investments: first decide what investment strategy is appropriate for your needs, and only then should you start thinking about which investment manager to use. The right investment strategy is all about the trade-off between risk and return. In the world of investments, one usually has to take on more risk (volatility) to be able to earn higher returns.

Do not put all your eggs in one basket.

Spreading your investments across different asset classes (such as equities, bonds, property, cash and alternative assets) is known as diversification. Not all asset classes react the same way to market events. By spreading assets amongst different asset classes that react differently to negative (and positive) market events, the impact on your portfolio, as a whole, can be lessened.

Save early and often…

We all love the idea of retiring at age 35 and spending the rest of our life in luxury! Some people actually manage to do this, but for the majority of us the maths of this dream doesn't work. You need to aim to save for at least 35 to 40 years if you're going to have a comfortable retirement – so start young, and don't cash in your savings when you change jobs. Either preserve it in the savings vehicle it was in or move it to your new retirement savings vehicle.

For the majority of us, our retirement savings is a very long-term investment, since our retirement may be 10, 20 or even 30 years away. But time goes very fast and the younger you start, the more comfortable your retirement.

All members are strongly encouraged to seek the advice of a professional financial adviser to help you make the most of your financial future. Your adviser should complete a full needs and risk analysis before giving you advice

ABSOLUTE STABLE GROWTH PORTFOLIO

The Old Mutual Absolute Stable Growth Portfolio is the Management Board's choice for members who do not want to make investment portfolio selections themselves. It is a smoothed bonus portfolio, which aims to provide competitive long-term returns with lower volatility than you would get if you were subject to market returns. It also provides an underlying guarantee that the value cannot fall by more than 20%.

Over the long term, you would expect to earn similar returns to a comparable market-linked fund – just with fewer ups and downs due to the smoothing.

Smoothing is a tool that is used to turn unstable market returns into smoothed returns, also called bonuses. These returns will give a smooth progression of the value of your investment over time. These bonuses are calculated using a simple and transparent formula.

WRAPPING UP...

We hope you've enjoyed this investment update. You can look out for a new investment update in March 2019, giving you more information to help you understand your investments better, as well as updating you on what the markets have been doing and what the economists are saying.

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