The Connector

EDITION 03 | 2020

The headlines and anecdotal evidence consistently warn us that very few South Africans can afford to retire. It is hard to know whether you have “enough” retirement savings to be able to afford to retire and be able to maintain your current standard of living for the rest of your life. We all have different incomes and lifestyles.

The retirement income that you can expect will depend on the amount you have saved, your retirement age and the returns that will be earned on your retirement savings.

This edition of the Connector newsletter gives you some financial planning tips that are relevant to members at different stages in their journey to retirement.

Many individuals approaching retirement would like their retirement benefit to cover the cost of living for themselves and their partners, allowing them to be able to afford the long term care they may need and while being able to leave an inheritance for their children and grandchildren.

The reality is that many retirees have not calculated just how much income they will need in retirement and just how much savings will be needed to provide the level of income they are expecting. The low level of retirement savings was borne out in the SmartSense research that NMG reported in 2019. Members of all the funds administered by NMG could, on average, expect an income that was 35% of the salary the member was expected to be earning before retirement.

The rule of thumb is that members need to have saved 15 times their annual salary or more by the time they retire to receive a comfortable income in retirement. Members of all the funds administered by NMG on average only had one times their annual salary (103% of their salary) invested for their retirement in their current fund.

It’s important to know what income you are targeting and what you are likely to expect as an income in retirement. To assist you, the NMG actuaries have developed a calculator that you can use to check the pension income that you are likely to receive in retirement.

Once you have provided information about your circumstances, the calculator will show your projected retirement income in three sample investment portfolios with low, moderate, and high growth investment scenarios.

Your actual retirement income will depend on the amount you have saved and the investment performance of the portfolios where your retirement savings are invested.

You can access the retirement income calculator on NMG’s website.

Click here: https://nmg-group.com/businesses/tools/.

YOUR FINANCIAL PLANNING NEEDS ARE UNIQUE

In your 20's? Aim for financial discipline

When you are starting out, its key to set up a budget and try paying off any debt (like student loans) as quickly as you can. Aim to live within your means and avoid incurring non-essential debt. A good credit record will help if you need to apply for finance in future. To do this, pay your accounts on time and in full every month and manage your bank account responsibly.

Start to save (even small amounts) to build up an emergency fund. This can take time to build up so set a goal of what to save each month and work towards a lump sum of at least three month's income. It may help if you keep your emergency fund in a separate account to avoid using these savings. The sooner you can start building your wealth, the better. If you start investing in your 20s, you can build an investment portfolio that can create significant wealth into the future.

Try to understand any benefits provided by your employer like your retirement fund and medical aid. Your retirement fund may not be a priority now, but it could help you reduce the tax you owe so it's good to find out your options. Once you know what benefits are provided by your employer, you can ensure that you are appropriately covered. You will typically need medical aid or a hospital plan for unexpected health expenses and disability cover if you can no longer work. You may need to have vehicle and household insurance cover if you have a car and your own household.

In your 30's? Moving up in your career, buying a home and starting a family?

Fortunately, you have enough time to create a financial plan and save for your future. Budgeting is important to manage your expenses. You may want to consider reducing your spending on non-essentials so that you can purchase your own property or grow your savings. If you already have a home loan and can put extra money into the loan account, it can save you years of interest, and give you more cash to invest when your home is paid off.

DID YOU KNOW?
YOU CAN EXPECT AN INCOME OF AROUND R4000 A MONTH FROM R1 MILLION OF RETIREMENT SAVINGS

Set aside small amounts of money each month for emergency savings. Saving for your children's education while they are young will help you when they are older, when you may also have financial pressure to assist older family members. As your assets and family grow, having a Will is essential.

If you have not yet started investing for your retirement now is the time to start. It's a good idea to calculate whether the amount you are saving into your employer's retirement fund will be enough to sustain you in retirement. Use a retirement calculator available online to help you with this and look at increasing these savings if you can.

Insurance is an important part of a financial plan. You may have medical aid and disability cover through your employer. Ensure that the amount of life cover you have is enough to properly take care of dependants. If you need to take additional cover, do it when you are young and in good health. You should consider your short-term insurance needs if you have a car and household contents.

In your 40's? What you didn't do in your thirties can become an issue in your forties

You are likely to be in your peak earning years, so saving and investing for the future should be top of mind as your time horizon to retirement is starting to get shorter. In your forties, there are a limited number of pay cheques until you retire. Check if you are on track to reach sufficient income in retirement and consider how you can supplement these savings if necessary. You may be able to use salary bonuses to assist with this.

It's important to budget as your expenses and commitments increase. Many forty year olds are still paying off their bonds and have high family-related expenses. This can be a tough time financially with commitments to children and caring for parents that may not have sufficient retirement savings themselves.

If you have dependents, you should consider your life cover needs. If you don't already have one, you may want to set up an emergency savings fund that covers at least three months of expenses. Also, remember to review your Will from time to time to make sure that your estate planning is up to date.

In your 50's? Many people only start thinking about their retirement planning when they reach their fifties

Many people only start thinking seriously about retirement planning when they reach their fifties. Unfortunately, time is not on your side, but this is a good time to plan for the future. It helps if your property and vehicles are paid off before you retire and hopefully your children are closer to being self-sufficient.

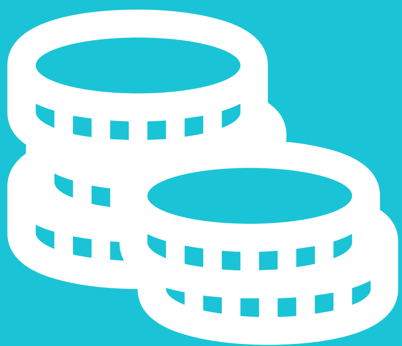
Review your financial plan to know whether you are on track to be able to afford to retire. If retirement is in sight and your savings are not what you would like them to be, you will need to save as much as you can while you are working and avoid unnecessary spending to ensure that by the time you retire you are debt-free.

At age 50, you might have 15 years before you reach age 65, when many employers expect you to retire. Make the most of those pay cheques and use any available funds to boost your retirement savings. You will need to budget and invest while you can.

If you still have a mortgage in your fifties, it may be worthwhile to downsize before you reach retirement. This could help you use the money being spent on mortgage payments to rather increase your retirement savings and reduce expenses for maintaining your home.

This is also a good time to see if you can use skills you have learnt along the way to supplement your income. Many new businesses are started by people over 55 wanting to use their hard-earned wisdom and skills to increase their income and potentially create an alternative income source in retirement.

Your fifties may also be a good time to form a relationship with a qualified financial planner that can assist you as you journey towards retirement. A financial planner will be able to review your investments and help you make sure your Will and estate planning are current and relevant to your circumstances.



YOUR INVESTMENTS IN Q2, 2020

Effects of Covid-19 pandemic

During the second quarter of 2020, many countries eased lockdown restrictions and began to open gradually. Investment markets began to digest the impact of the eventful previous months, while economies still battled the effects of the Coronavirus. The risk of rising infections and the unforeseeable end of the pandemic kept uncertainty high. In financial markets, there was a strong rebound worldwide in April, which steadied into May and June, showing a sharp "V-shape" recovery.

Global growth
Despite the high level of government support packages reaching around $10 trillion, and central banks around the world making multiple interest rates cuts, the global economy has not avoided a global recession. The International Monetary Fund has forecasted global growth to contract by around 5% this year.

South African growth
Locally, the South African economy contracted by 2% in the first quarter of 2020, with most of the pain expected to be felt in the numbers for quarter two. This has led to an expected contraction in growth forecast between 6% and 10% for the year of 2020.

Interest rates
Following the previous interest rate cuts, the South African Reserve Bank cut interest rates a further 50bps in May, bringing the repo rate to a 3.75%, the lowest level on record.

Economic concerns
The high levels of debt our government faces is a concern. The finance minister, Tito Mboweni, explained this in his special budget announcement in June, when he said that it was expected that debt would increase to well over 80% of GDP.

Economic activity is expected to remain depressed for at least the foreseeable future. This is due to:

- high debt levels
- low growth
- ever-increasing unemployment numbers
- low consumer and business confidence.

Global risks
There are concerns around the upcoming United States election in November. As President Trump scrambles to gain support, fears of further tensions between East and West build.

It seems that the global risk of a standoff between Russia and OPEC is diminishing as they ended their oil price war. The oil price climbed during the quarter with rising demand as economic activity increased.

KEY INDICES TO 30 JUNE 2020

KEY INDICES	1 month to 30 June 2020	3 months to 30 June 2020	1 year to 30 June 2020	3 years to 30 June 2020	5 years to 30 June 2020
Local shares FTSE/JSE All Share TR ZAR	7.74%	23.18%	(3.30)%	5.11%	4.16%
Local resource shares FTSE/JSE Resources 10 TR ZAR	8.62%	40.63%	11.69%	24.12%	9.55%
Local industrial shares FTSE/JSE Industrials I 25 TR ZAR	8.33%	17.11%	7.18%	4.24%	4.60%
Local financial shares FTSE/JSE Financial 15 TR ZAR	3.13%	11.09%	(36.93)%	(6.58)%	(4.85)%
Local property FTSE/JSE SA Listed Property TR ZAR	13.42%	19.17%	(42.70)%	(21.83)%	(12.65)%
Local bonds Beassa ALBI TR ZAR	(1.18%)	9.94%	2.85%	8.11%	7.49%
Local cash STeFI Composite ZAR	0.44%	1.46%	8.86%	7.17%	7.20%
Global shares MSCI ACWI GR USD	1.75%	16.15%	26.47%	17.22%	14.99%

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