
# Exploring adequate retirement funding in South Africa: A KwaZulu-Natal financial planner's view

by

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**Student number: 202513410**

Submitted in partial fulfillment of the requirements for the degree of

**MASTERS IN ACCOUNTING**

in the

School of Accounting, Economics and Finance

at the

University of KwaZulu-Natal

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February 2018

# DECLARATION

I, Shagaran Rathnasamy declare that:

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*(ii)* This dissertation has not been submitted for any degree or examination at any other university.

*(iii)* This dissertation does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.

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_____ _____

Signature Date

Shagaran Rathnasamy

# ACKNOWLEDGMENTS

I would like to give thanks to the following inspirations and motivators that assisted me in this dissertation:

- Firstly, to my Lord Bhagawan Sri Sathya Sai Baba who has blessed me with His love throughout my life, without which nothing would be possible, I thank thee.
- To my parents, Logan and Sheila Rathnasamy; I thank you for always believing in me and what I can accomplish, it is through the life lessons that you taught me that I am able to take on challenges knowing that you are always there to love and support me through it.
- To my wife, Diana, I thank you for your understanding, love, support and patience during this dissertation as well as during my previous studies. I am truly blessed for having you as a pillar of strength.
- To my siblings, Sharon and Shaun, I thank you for the support you have always offered me in so many ways in both life and my academic career.
- To my supervisor Mr. Deodutt, I thank you for all the guidance you have given me and all the valuable research paths that you have led me to in order to complete this dissertation. Your willingness to go out of your way to assist me wherever possible is greatly appreciated.
- A special thank you must also go to Dr. Pravin Thakur, Dr. Raj Rajaram and Dr. Joseph Jere for their valuable input offered into this research, more especially for making the time to accommodate me during their busy daily schedules.

## ABSTRACT

The development of several social demographic and economic trends have created the interest among financial analysts and the general population in planning for retirement. By the year 2021 the number of South Africans past retirement age will be an estimated 4.4 million which should account for approximately 7.3% of the country's population (currently 3.8 million or 6.8% of the population) (Statistics South Africa, 2016).

The increase in South Africa's population at large and longer retirement periods have raised questions about financial preparedness for retirement. Economic issues such as corporate downsizing, capped employer retirement contributions, changing of jobs for greater remuneration and increased daily living costs have shifted the responsibility for retirement financial well-being from employers to individuals.

Adequate retirement provision does not necessarily only affect the retiree but also the family unit of the retiree as a whole, as the vast majority of households in developing countries such as South Africa rely solely on one breadwinner.

A global financial planning survey "was conducted by the FPI in 2015. The survey shows that only 38% of South Africans are confident that they will achieve their financial life goals, with 55% indicating that they do not know where to start with financial planning (Financial Planning Institute of South Africa, 2015)

Gustman, Mitchell and Steinmeier (1995), as sited in (Greninger, Hampton, Kitt, & Jacquet, 2000) reported that, "there is no consensus in literature regarding the definition of retirement. If we do not understand the meaning of retirement, is it possible to judge whether a population is financially prepared?" This question underlines the importance of gathering informative qualitative data such as goals and risk tolerances and quantitative data, in order to develop a capital needs analysis to establish how clients can successfully meet their retirement goals.

This paper aims to explore the role of the Financial Planner in the retirement planning process.

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# CHAPTER 1
# INTRODUCTION

## 1.1. Overview

This chapter will introduce the overall objectives, key terms and considerations that shall be carried forward throughout this study. The importance of planning for retirement is discussed first, along with the background into the progress of financial planning over the years as well as a background into understanding retirement before planning for it.

## 1.2. The importance of planning financially for retirement

The development of several socio-economic as well as demographic trends have developed a keen interest among financial analysts, and to an important extent the general population, in retirement planning. By the year 2021 the number of South Africans past retirement age will be an estimated 4.4 million which should account for approximately 7.3% of the country's population (currently 3.8 million or 6.8% of the population) (Statistics South Africa, 2016).

The increase in South Africa's population at large and longer retirement periods have raised awareness and questions about individuals' financial preparations for retirement. According to (Sanlam, 2016): "eighty seven percent (87%) of respondents (made up of pensioners, principal officers of stand-alone retirement funds and representatives of participating employers in commercial umbrella funds) believe that it is the employer's responsibility to enable good retirement outcomes for their employees. However, on average, employers believe that only fourteen percent (14%) of their retirees, a drop in thirteen percent (13%) from 2015 would be able to retain their current standard of living."

Evidently economic issues such as corporate downsizing, capped employer retirement contributions, changing of jobs for greater remuneration and increased daily living costs have shifted the responsibility of financial well-being in retirement to individuals rather than the employer. Studies and research conducted in the United States of America suggest that given the recent trends of eliminating defined benefit plans and retiree medical subsidies, retirement income responsibility is increasingly shifting to workers

(Steinberg & Lucas, 2004). The same reasoning is extended and holds true in South Africa. This in turn suggests that an adequate retirement provision does not necessarily only affect the retiree but also the family unit of the retiree as a whole, as the vast majority of households in developing countries such as South Africa rely solely on one breadwinner.

### 1.3. The progress of financial planning over the years

The past four decades have produced large volumes of financial publications, financial computer software calculators and advisors that provide investors with both financial services and information.

The Financial Planning Institute of Southern Africa is a South African Qualifications Authority recognised professional body for financial planners in South Africa. It is the only institution in South Africa to offer the CFP® certification, as well as an approved examination body for the FAIS (Financial Advisory and Intermediary Services) regulatory examinations. A survey entitled “The value of financial planning and awareness of CFP certification: A global financial planning survey” was conducted by the Financial Planning Institute of Southern Africa in 2015. The survey shows that only thirty eight percent (38%) of South Africans are confident that they will achieve their financial life goals, with fifty five percent (55%) indicating that they do not know where to start with financial planning (Financial Planning Institute of South Africa, 2015).

Seventy-eight percent (78%) of South Africans have considered using or have used financial professionals because they require assistance with retirement planning. This is evidence of the need for financial planners to assist the wider range of the population that do not possess the necessary financial acumen to prepare themselves for retirement. As a result, tertiary education institutions and financial institutions offer degrees, diplomas and certificates for students wishing to pursue careers in financial planning to satisfy the increasing demand for qualified financial planners. As at 2017, the Financial Planning Institute of Southern Africa has seven approved education providers allowing students of this program to then write the Professional Competency examination (PCE). Other universities also offer programs and certifications for financial planners that focus specifically on retirement planning.

“The importance of retirement planning for the well-being of families and individuals as well for the economy and society, coupled with the growth of the financial advisory and educational establishments, provide fertile research questions (Greninger, Hampton, Kitt, & Jacquet, 2000).” A number of research studies looked at the financial preparedness of individuals; however, communities still question the meaning of the term retirement.

### 1.4. Understanding retirement before planning

According to census (Statistics South Africa, 2016), the average retirement age in South Africa has dropped from 65 to 60 over the past decade. However, based on the increasing costs of living in South Africa and a general affordability crisis, there is a strong reason to suggest that retirement is not necessarily an indication to “stop working” to a vast portion of the South African population. It is the South African culture to be inclined to generate some sort of passive income after retirement in the form of rental property or part-time work; for example, which do not require a commitment to long labour hours after retirement age.

Gustman, Mitchell and Steinmeier (1995), as sited in (Greninger, Hampton, Kitt, & Jacquet, 2000) reported that, “there is no consensus in literature regarding the definition of retirement. If we do not understand the meaning of retirement, is it possible to judge whether a population is financially prepared?” A question that clearly underlines the importance of gathering qualitative data that is informative such as goals and risk tolerances together with quantitative data, in order to develop a capital needs analysis to establish how clients can successfully meet their retirement goals.

“A common set of assumptions form the base for various models and methods that compute retirement needs for families and individuals. These are:

- Retirement age
- Inflation rate
- Rate of return on investments before and after retirement
- Tax bracket before and after retirement
- Life expectancy
- Level of annual expenditures required during retirement

Financial planners, computer software and calculators incorporate these assumptions in assessing the required savings to meet retirement goals. The actual assumptions made, regarding the list above, have a direct impact in determining how much must be saved to meet a retirement goal. For example, an individual whose projected retirement needs are $50 000 annually in today's Rands will need to save approximately $15 800 annually assuming:

1) The individual has no current retirement assets,
2) Thirty (30) years to save until retirement age,
3) Twenty (20) years of living in retirement,
4) A Nine percent (9%) return on investments before and after retirement, and
5) Four percent (4%) inflation before and after retirement.

The required annual savings drops about fifty percent (50%) to approximately $7 950 by just increasing the investment return to ten percent (10%) and reducing the inflation rate to three percent (3%) (Greninger, Hampton, Kitt, & Jacquet, 2000)."

### 1.5. Objectives, Problem statement and the aim and motivation for the study

The objectives, problem statement and the aim and motivation for the study is discussed in detail in Chapter 3: Research and Methodology.

### 1.6. Conclusion

This chapter looked at the overall view and sensitivity of guidelines, with respect to one of the most important planning decisions in an individuals' lifetime. This research asks several questions not addressed by previous studies in South Africa. Do basic retirement planning guidelines recommended by financial planners exist? Is there an agreement or consensus amongst financial planners with respect to these guidelines, and if so, to what extent? Can facilitating communication between financial planners develop such a consensus? Although a similar study was conducted in the United States of America, namely: "Retirement planning guidelines: A Delphi study of financial planners and educators (Greninger, Hampton, Kitt, & Jacquet, 2000)", a gap exists in current literature as no such research has been conducted in South Africa.

The next chapter will review the current literature regarding retirement financial planning and will build onto the research design and methodology of this study.

# CHAPTER 2

# LITERATURE REVIEW

## 2.1. Introduction

The previous chapter presented an overall view as to the importance of retirement financial planning, the progress of financial over the years as well as a brief understanding into considerations taken into the retirement planning process. This chapter will build on Chapter 1 by reviewing the current literature available on retirement financial planning in order to build a research methodology for this study in Chapter 3.

### 2.1.1. The regulation of the financial services industry

According to (Reddy, 2017), The Financial Sector Regulation Bill passed on 22 June 2017, gives the shape for a new 'twin peaks' approach of rules to be adopted throughout the South African financial services industry. Firstly, The Prudential Authority will be accountable for regulating the prudential components of banks and all non-bank monetary institutions. Secondly, The Financial Sector Conduct Authority will be accountable for regulating market behavior and protection of financial consumers.

Although the immediate effect of the Bill is not extensive, the South African financial services sector is looking at a regulatory overhaul.

Gaps and weaknesses were assessed in a policy paper, published by National Treasury in February 2011, and proposals were set out to reform the financial sectors' regulatory system.

At present, the South African Reserve Banks' Banking Supervision Department regulates all banks. The Financial Services Board (FSB) regulates all non-bank financial institutions that include insurers, collective investment schemes, financial service providers, insurers and market infrastructure. However, each institution has to comply with its industry specific legislation.

South Africa's financial services sector boasts several foreign and domestic institutions. These institutions provide a full range of services that include inter alia: commercial banking, retail and merchant banking, insurances, investment as well as mortgage lending.

An independent body, the Financial Services Board, oversees the financial service sector in South Africa. The body is responsible for the regulation of financial institutions and markets that include brokering operations, insurers and fund managers.

Financial firms are custodians of others' money and the funds, controlled by financial sector ultimately, belong to customers.

The Financial Planning Institute of Southern Africa as well as regulators around the world are aligned in a shared interest to foster positive outcomes for those engaging financial planners and advisors in an effort to improve consumers' financial wellbeing. The Financial Planning Institute of Southern Africa advocates for stronger focus on standards of professionalism, competency and the process of financial planners use to engage clients and understand their goals, needs and objectives before delivery of financial planning recommendations. As well a need for financial planners to follow a competency framework (Botha, Rossini, Geach, Goodall, & du Preez, 2017).

The South African Financial Planning Handbook covers these competency areas comprehensively as a reference tool to financial planning that includes the best practices to be confirmed with in the industry as well as the latest changes to legislation.

The role of a financial planner is to facilitate the process of assisting clients to identify and achieve their life goals through the planning of their finances. After collecting and analysing the client's information, the financial planners drafts a financial plan that recommends an appropriate course of action to achieve their goals. Although this process does not exclude the sale of a financial product, this should not be the focus of the financial planner (Botha, Rossini, Geach, Goodall, & du Preez, 2017).

Andrew Newton, as cited in The South African Financial planning handbook comments that, "the objectives of regulating financial services plays a role in achieving the following:

- Providing a regulatory framework for ensuring appropriate behavior towards the consumers of financial services and products;
- Ensuring that members of the public are informed and educated;
- Ensuring that financial planners follow the principles of best business practice ;
- Creating a stable financial services industry;
- Ensuring economic stability;
- Protecting the consumer of financial services and products; and
- Creating a profession in respect of the provision of financial services.
  (Botha, Rossini, Geach, Goodall, & du Preez, 2017)"

According to the South African Financial Planning Handbook 2017, the following procedures, the following makes up the retirement planning process:

1) Determining the client's retirement goals, 2)
2) Analysing the client's existing retirement provisions,
3) Establishing the client's needs and the shortfall;
4) Pre-retirement planning – Needs Analysis

(Botha, Rossini, Geach, Goodall, & du Preez, 2017).

Based on the above regulations and guidelines it is evident that a financial planner certainly has 'his work cut out for him' when advising a client on retirement planning. The various propositions, by the researcher, in the literature that follows as well as the survey is to establish whether the objectives of this research project can be met by delving further into the retirement process from the viewpoint of the financial planners.

## 2.2. Retirement planning: The burden that rests on the retiree

There is a keen interest in research to how adequately South Africans prepare for the future and more specifically for retirement. For example, (Sanlam, 2016) that uses a 'systems thinking' approach to assert that "every individual element is interlinked and interdependent on one another for the entire system to function optimally as an integrated whole." The survey highlights trends believed to have an impact on the nature of retirement provision, and which impact retirement fund members' ability to achieve adequate retirement outcomes using members' of retirement fund surveys and focus

groups conducted over the past nine years. The survey reveals that fifty three percent (53%) of employers do not track and monitor the progress of members towards achieving their retirement outcomes and those employees should retain the ultimate responsibility for their overall retirement outcomes, which again highlights the need for a shift of from reliance on employers to financial planners – from an employees' perspective. The survey concludes, "We should continue to encourage young members to contribute well into their retirement, but we could consider being a little more understanding about the level of contribution which can be afforded." Which still leaves the question open as to what is a basic retirement planning guideline? The survey does reveal an interesting statistic that nearly three quarters of pensioners only received financial advice within ten years of retirement, highlighting the fact that receiving a retirement planning guideline at a younger age will assist to benefit retirees when retirement eventually looms, as a matter of gained knowledge to prepare them for these golden years to follow.

The financial wellness of employees and the apparent financial stress in South African homes was a focal point in the annual retirement Benchmark Survey 2017 released by Sanlam (Sanlam, 2017).

According to the statistics released, the survey respondents were 1 317 well-educated professionals. Sixty percent (60%) of the respondents salaries were more than R300 000 per annum. The respondents were questioned as to how they would financially plan to themselves through retirement (Sanlam, 2017).

Approximately twenty percent of respondents had no current retirement plan, whilst almost sixty percent (60%) said they have a retirement annuity (Sanlam, 2017).

**The actual results from the "planning for retirement section" of the survey follow** (Sanlam, 2017)**:**

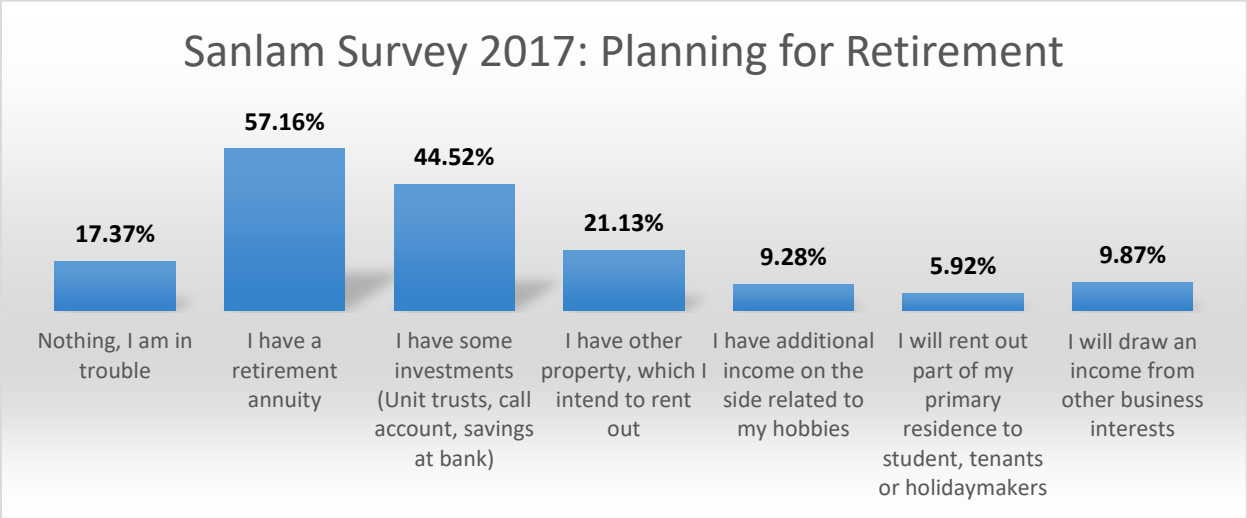



***Table 2.2.1: Planning for retirement. Data extracted from the annual retirement benchmark survey by Sanlam*** (Sanlam, 2017)***.***

BusinessTech published commentary on the survey in an article entitled "*This is how South Africans plan to get through their retirement years* (Business Tech, 2017)*."*

According to the Employee Benefits CEO of Sanlam, Dawie de Villiers, explicit retirement saving is ranked the sixth most stressful financial pressure to middle class South Africans. He believes that the desire to improve such outcomes should be done with the expertise that is now not a "top of mind' economic concern for people (Sanlam, 2017).

He believes that a suitable and relevant combination of default strategies coupled with member choice and empowerment tools (developed by a framework) is the best way to accomplish this (Sanlam, 2017).

The bulk of respondents stated that would look to continue working beyond retirement age when how they would plan to cope with financial shortfalls during retirement.

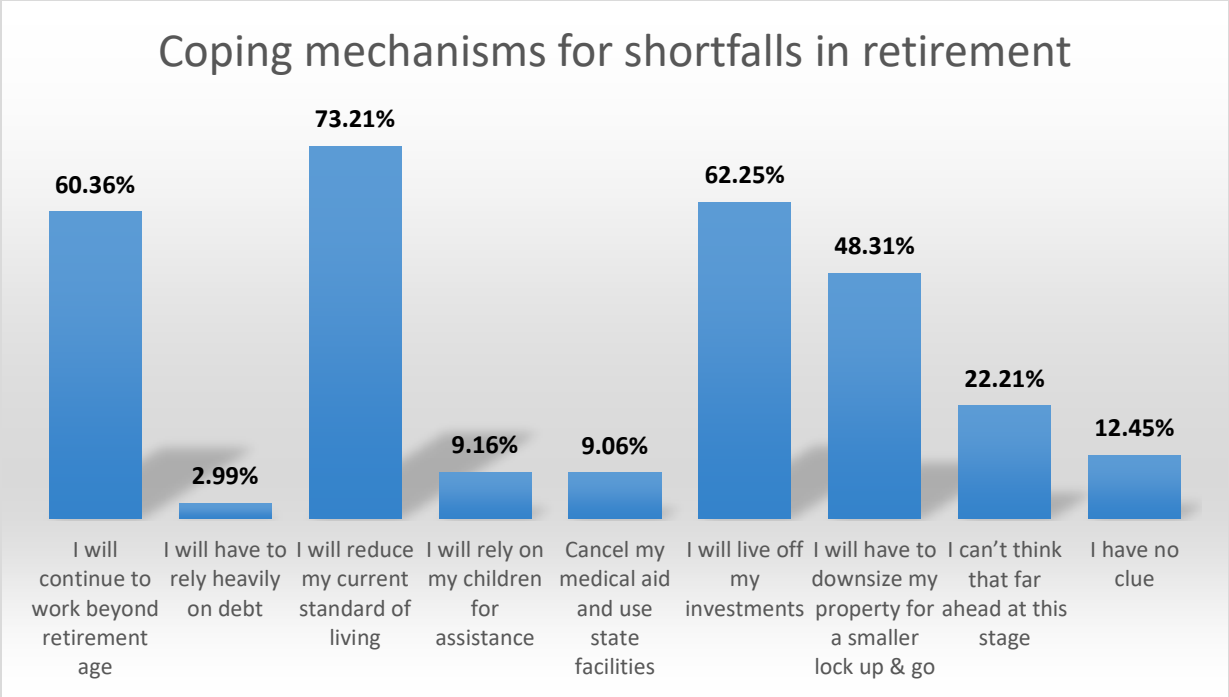



***Table 2.2.2: Coping mechanisms in retirement. Data extracted from respondents coping mechanisms during retirement*** (Business Tech, 2017)

According to Sanlam Employee Benefits - Client Solutions CEO, Viresh Maharaj: The research suggests that monetary stress has an impaired effect our quality of living and directly diminishes our potential to work productively.

He additionally states, "This is our middle class – the spine of our economy, our tax base and our hope for the future and they are stressed. We believe that the findings point to a dire need for financial coaching and increased employer involvement in the financial wellness of employees (Sanlam, 2017)."

According to a survey and published as an article entitled "*5 money worries that are stressing out middle-class South Africans"* (Business Tech, 2017) by BusinessTech, the results were:

- Almost 50% of respondents have a budget deficit during the year were expenditure in greater than their income,
- Short-term debt accounts for fifty five percent (55%) being the primary source of financial stress. Forty one percent (41%) are concerned that they will not have sufficient funds set aside for unforeseen emergencies,
- Over ten percent (10%) stated that they were unable to cope with their current financial stress predicament,
- Twenty percent (20%) stated that they borrow from family and friends to meet expenditure commitments;
- Sixty percent (60%) do not make any provision for medical aid insurances or premiums in retirement.

Thirty three percent (33%) attempt to reduce expenditure in order to cope with debt (Sanlam, 2017).

The survey brought about many problem areas experienced by the South African working class that is important to be aware of as, many more people could be experiencing similar hardships without any hope of a solution.

Chief Executive of Sanlam Personal Finance: Savings, Trurman Zuma believes that "the starting point is to address many of the issues to gain a better understanding.

Although acknowledging that the level of understanding is at a current highpoint owing to a combination of efforts of the media as well as providers, he still believes that it is still too low. He believes that further help is required from professional advisors to provide assistance in educating and coaching the middle class in an effort to change their financial behavior, which will inevitably lead to more consistent and better financial decisions (Business Tech, 2017).

Over eighty percent (80%) stated that they value financial expert advice. However, only fifty two percent (52%) stated that financial advisors have ever assisted them.

Discussing issues of debt directly through employers was another approach to consider, as access to quality advice as well as affordability of quality advice is a serious issue for a middle class society, and to a larger extent, to the blue-collar society of workers. Employers can make these resources available to such employees.

A financial wellness program based in the workplace provides employers the opportunity to address their employees' financial concerns in an inclusive manner."

The survey also revealed that respondents to the extent of sixty percent (60%) would be interested in a workplace financial wellness program. A further twenty percent (20%) would also be open to such initiatives. Respondents indicated a general interest for programs that could include budgeting tools, financial literacy training and access to financial advisors.

### 2.3. How much is enough in retirement?

A research project conduct by BusinessTech in 2017 and published as an article entitled "*How much you would need to save every month to retire a millionaire in South Africa* (Business Tech, 2017)*."*

A major concern facing South African households, and the world alike, today is the adequacy of retirement funding saved.

Whilst households strive to contribute their best towards a monthly retirement saving plan, it often takes up minimal space in our thoughts before turning into a fearful reality, as the years march on and retirement age looms.

Increased longevity and life expectancy amongst other factors makes it that much more difficult to determine "how much is enough" to retire on.

In times past, having a millionaire tag against your name was an assumed reasonable belief that there would be no worries in daily life, let alone in retirement. However considering the volatility of the South African economy as well as factors such as inflation, increased taxes and increased costs on just about everything; a serious question needs to be asked. Is a million rand enough to carry you through retirement?

A study conducted in Canada, using Statistics Canada's LifePaths dynamic population micro-simulation model, re-iterated the facts above. Seventy percent (70%) was regarded as the appropriate target that ensures the same standard of living level is maintained post retirement (MacDonald, Osberg, & Moore, 2016), The paper questioned whether Canadian individuals born from 1951 to 1958 would achieve a matching continuity in their living standards, had they attained an approximate seventy percent (70%) final employment earnings replacement rate at retirement. It was found that the replacement rate measure of seventy percent (70%) has a low predictive value in measuring the continuity of living standards between an individual's working life and retirement. The main reason is that employment income in any given single year cannot be considered a reliable representation of the living standards of a worker, as:

- The reliance that it places on the pre-retirement measurement period is inadequate,
- Important consumption sources components (an example being home equity) are not incorporated, such as the study by (Brady, 2010), and
- Ignores household size (particularly children).

These omissions were considered by the authors to be crucial to accurate estimation of pre-retirement living standards and it was found that these omissions interact with each other in improving the conventional earnings replacement rate (MacDonald, Osberg, & Moore, 2016).

The study found a low correlation (0.11) between the conventional earnings replacement rate and actual living standards continuity and goes on to suggest an alternate assessment to evaluate the maintenance of workers' living standards post retirement. It was also unable to locate segments within the population to which the seventy percent (70%) target could accurately determine a particular standard of living continuity, which further substantiates its inadequacy. Analysts suggest that using a single replacement rate target is unreasonable due to risk and before one can decide the adequacy of living standards in retirement, the individual requires a measuring tool (or metric) that will accurately measure living standards before retirement as well as after. The author's suggested metric was the "Living Standards Replacement Rate or the LSRR, which

provides a more accurate, understandable, and consistent measure of retirement income adequacy (MacDonald, Osberg, & Moore, 2016)."

An article published by Business Tech entitled: "*Why South Africans can no longer afford to retire at 65"* further stresses the fact that the majority of South Africans who attain retirement age have inadequate provision, an issue that is worsening due to people being forced into earlier retirement (Business Tech, 2017). The article uses data sourced from the report of the Sanlam investment plan, Glacier.

The report generalizes the fact that people are outliving their capital because of advancement of medical technology. Encouraged by the prospect of growth assets and equities outperforming guaranteed rates, the report also states that, in pursuit of a higher income, retirees will now prefer living annuities. Which could prove disastrous.

Most people will live longer than they may imagine and people are living longer lives in general, according to Glacier.

Business Development Manager at Glacier, Rocco Carr states that research shows that when considering a couple aged sixty-five (65) today, the chances of one of the two reaching the age of ninety-four (94) is fifty percent (50%). Additionally the chances of one of them reaching the age of one-hundred (100) is twenty-five percent 25%. (Business Tech, 2017).

The belief is that as technology further advances, the above figures will rise accordingly along with life expectancy in general.

Carr further expanded that 3D printing is a field that will likely enhance the medical profession, as researchers believe 3D printers will have the capability to print human organs within the next 15 years.

Currently at lab level, the development of such a bioprinter will allow for the creating a new kidney or liver (Business Tech, 2017).

Unforeseen risks associated with Investment-linked living annuities (ILLA's) will also materialize.

Currently the oldest ILLA is only approximately twenty years old. This period is shorter than people require it to be in order to provide an adequate retirement income.

According to studies: in order for an investor to achieve sustainable retirement income, growth in the underlying assets and the actual lifespan of the person must support the income level drawn.

It is when a person draws more than this level that the risk of outliving one's capital (longevity risk) is a matter of concern (Business Tech, 2017).

The longevity risk becomes obvious when considering a standard income graph from an ILLA as illustrated below. Projected income is shown in nominal terms assuming an annual income growth rate of 5% with an initial income withdrawal of 6.7% (Business Tech, 2017).

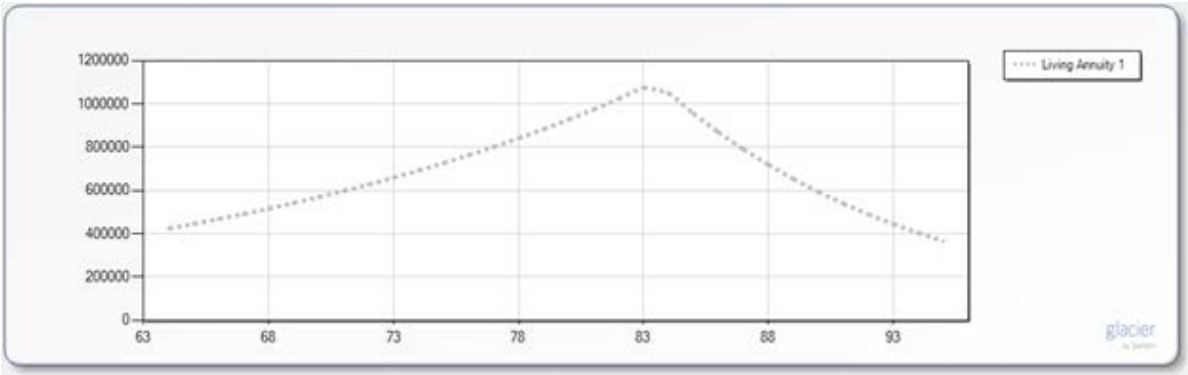



**Figure 2.3.1: Longevity risk vs projected income**

The graphical evidence clearly suggests that the optimum solution in this scenario is not an ILLA.

However, the reality that individuals would not have saved sufficient retirement funds would suggest that investments limited to fixed-rate annuities might not necessarily be the solution either.

According to Carr: alternative solutions such as with-profit annuities require consideration. With-profit annuities allow a person's investment to participate in the fortunes of growth assets while still being protected from potential longevity risk.

With this option, obvious deterrents to investors would be the fact that starting income is insufficient to replace their employment income. In addition, investors are not appeased to the thought of their capital forfeiture upon death.

Although people choose, the ILLA in an effort to provide some form of inheritance, their children may have no inheritance at all should they live too long and could in fact be supporting the parents instead. Carr's advice is that people should come to the realization that their pension fund must provide them with an income and any further inheritance is a bonus (Business Tech, 2017).

Taking into account the above analysis, the question that now beckons is: What are our options?

As previous literature suggests Mr. Rocco Carr also believes and suggests that in order to ease the burden, South Africans should look to a combination of plans.

He does however concede that with-profit annuity options are not replacements for an ILLA; furthermore, it cannot be seen as a better alternative to an ILLA.

Carr also provides his opinion to one of the questions the researcher has set out to answer in this paper regarding whether adequate retirement funding can be quantified.

His response according to this article is that appropriate and adequate retirement income options are ultimately determined by clients' individual circumstances such as family responsibility, health, income needs, age etc.

He also suggests that retirement income can be optimized by combining multiple annuity options (Business Tech, 2017)"

## 2.4. When to start saving to achieve a retirement goal

BusinessTech embarked on a project that approached prominent financial analysts in South Africa in an effort to determine what amounts would need to be saved – starting at different ages in an individuals' lifetime – in order to retire at age sixty-five (65) as a millionaire in South Africa (Business Tech, 2017). Note that One Million Rand was not intended to reflect a financial adequacy benchmark, in terms of retirement funding requirements, but rather to illustrate a point).

Due to the personalised and complex nature of Pension Plans and retirement annuities, the calculations were directly focused on savings.

Rather than to offer financial advice, the calculations were instead intended to illustrate how important it is to start saving as early as possible.

Jaco van Tonder of Investec, clarifies that the calculation used will be based on the required monthly contribution, necessary in obtaining a capital return of R1 million (lump sum) at the age of 65, in present day money terms.

Key assumptions used:

- The current effective general rate of inflation, which is six percent (6%).
- Capital Gains tax (CGT) rate of 16.4% for an individual in highest income tax bracket. Although considered a long-term investment, the assumption is that the property rental income as well as interest part of the investment that attracts tax will be negligible. Therefore, the effective CGT rate is applied to all investment returns.
- A long-term return on investment of eleven percent (11%) per annum. After deducting the six percent (6%) inflation, it leaves a five percent (5%) real investment return per annum. This is expected from an investment portfolio that has investment in equities of at least eighty percent (80%).
- Different terms were used for the investment, illustrating the differences between starting to save at intervals between ages 20 through to 50, on the assumption that the required premium is to be continuously paid until age 65.

To be in line with the inflation assumption above, the investor would increase the size of their monthly contribution every year. This is a realistic and important assumption because most individuals earn a salary that steadily increases in line with inflation. This will enable an annual increase in monthly contributions toward the investment.

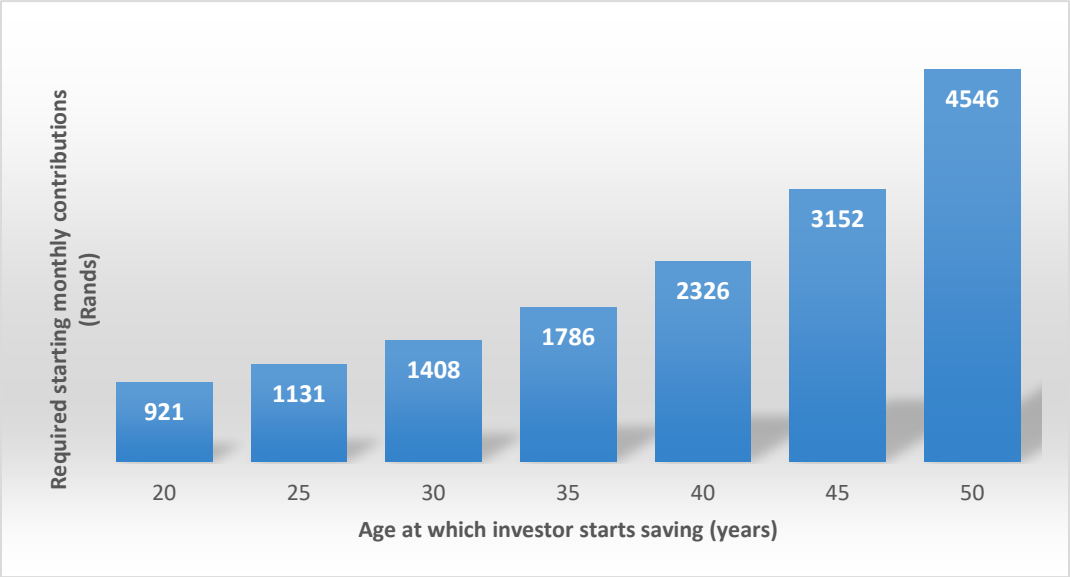



***Table 2.4.1: Illustrating an increasing required starting contribution towards saving R1 000 000 at age 65 as a result of a later start date. Data extracted from*** (Business Tech, 2017)***.***

Per the table above it is clear that the earlier you start to save towards retirement, the smaller the amount of monthly contribution is required. A delayed start towards savings requires a larger start up monthly contribution as the individual is required to "catch up" for the lost time in which the investment would have been allowed to grow.

"R1 million is a nice round number to work with, however it is unlikely to be anywhere near enough to retire on, said Lucienne Fild, an independent communications consultant for both the Association for Savings and Investment South Africa (ASISA) and the Actuarial Society of South Africa. He cited Peter Doyle, former president of the Actuarial Society of South Africa, who followed actuarial models to show that a good rule of thumb is that **12 times your annual salary** is likely to buy you a financially comfortable retirement. This is assuming that you are debt free by the time you retire (Business Tech, 2017)."

A point to note is that Doyle also stated that you would need to work on a multiple of 15 if you were to support your spouse through retirement as well.

### 2.5. Basic practical knowledge for retirees to consider

An article published by Business tech entitled "*This simple mistake could cost you millions for your retirement*" (Business Tech, 2017) uses data from the World Bank that indicates only six percent (6%) of the world population save up enough to retire. The emphasis also being that majority of South Africans are not adequately financially prepared for retirement,

A regional head at Citadel, Paul Leonard addresses the importance of preserving your retirement funds through compound saving. A basic example of a common individual is used namely "Bob" (Business Tech, 2017).

Bob starts his first job and saves R500 per month. With an assumed ten percent (10%) return per annum, Bob would have accumulated approximately R3 100 000 in 40 years (Amounts rounded).

Had Bob ceased saving after only 30 years, his accumulation would only be R1 100 000, or approximately on one third of its potential after 40 years.

Had Bob "ceased saving after only 20 years, he would only have accumulated a value of R380 000, approximately one third of its potential after 30 years. Had he ceased his saving after only 10 years, his savings would amount to only R100 000. This is less than one third of savings after 20 years (Business Tech, 2017)."

The example and point to prove the power of compounding and the time value of money. It is astonishing that the savings level of can treble every ten years in the example.

In essence, by not utilising his invested funds, Bob could potentially earn a further income on that income generated by his savings. The more time allowed this process to continue, he is rewarded with greater returns.

The above illustration is simplest yet most valuable lesson for investors to enable any investment to grow exponentially with time.

A look from a real life scenario illustrates that if Bob changed jobs after ten years and this investment was his pension fund. Bob would have three options with his fund.

1. Transfer to his new employer's pension fund,
2. Transfer the funds into a retirement annuity or a preservation fund, or
3. Have the investment payed out to him.

Majority of individuals choose option three for various different reasons. A reasonable person should ask their Human Resources department or intermediaries of the fund what the value of the fund is. The value of the fund is R100 000, in Bob's case. He should compare that to the potential R3 100 000 that he could have had after 40 years and should be thinking that R100 000 is worth far less when comparing to the potential of its end value.

It may appear that if he takes out the R100 000 after the first ten-year period it should not dent his savings drastically, as he intends to continue saving R500 per month over a few more decades to follow.

However, he will be missing a valuable point. Bob, in fact, is not saving at the same rate over in the decades that follow, as initial ten year period would have to be restarted, or repeat the first ten year period all over again. In essence, he is not eliminating the first ten years of compounding off his investment, he is eliminating the last ten years. As we know from above, the value of his investment grows from approximately R1 100 000 to R3 100 000 in the last ten years.

This is substantial loss of R2 000 000 by merely withdrawing the R100 000 after ten years. Note that Bob is not losing the R100 000 – he has foregone the R2 000 000 worth of growth on the investment.

The example is a simple lesson that “whenever an individual changes jobs, they should do their utmost best to preserve retirement savings, circumstances pending off course (Business Tech, 2017).”

With life passing by faster than we can think, Siba Njoba, an Alexander Forbes financial planner, offers the advice to start saving for the future today in an article published by BusinessTech entitled *“Saving for retirement is not just for old people”* (Business Tech, 2016) . His advice as should be the case with all people offering financial advice is to create a financial plan to suit an individuals’ personal needs. Thereafter, of utmost importance is to adhere to the plan.

He states how easy it is to be pressured to spend our earnings on fashionable possessions considering the consumer-driven world we live in. With millennials more likely to be influenced to stay “on trend,” rather than thinking of retirement savings. This does not however detract from the fact that your retirement plan should be clearly thought of as to whether you are satisfying a “want” or a need.

The harsh reality faced by South Africans is that it is possible for a person to work for over forty years only to be struggling in retirement financially.

Of utmost importance is the practice of budgeting principles, in financial planning. The most obvious and easy way of doing so is creating a retirement annuity that increases to assist in making provision for retirement savings.

Retirement annuities are particularly good for entrepreneurs who do not have the benefit of a provident or pension fund provided by an employer.

Retirement annuity contributions are tax deductible. Returns earned will be tax-free while a person is invested in the fund.

However, savings are only accessible when an individual reaches retirement age.
In addition, there is a limit to one third of the benefits’ value upon a payout of the final cash lump sum.

For persons that have retirement savings through an employer, preservation of any fund is key. When resigning to move from one employer to another, every possible effort should be made in order to preserve retirement benefits in a preservation fund rather than taking a cash payout and being taxed on the payout.

Another option is buying an investment property. After the property is paid in full, the rental income generated can be used to supplement retirement income. However, property is a long-term investment with factors and inherent risks that could affect an investment that require consideration. These can be in the form of: Bond repayments versus rental income, property agency costs, handling difficult tenants, upfront costs, interest rate hikes and maintenance costs.

It is worth noting that completing the selling process of property can continue for a period that is longer than anticipated. Therefore, property is not a flexible investment and requires careful consideration.

Njoba states that it can be overwhelming to make major financial decisions considering the various strategies in the retirement planning approach. He therefore advises to consult and communicate with a qualified financial planner, to assist in guiding you toward financial well-being. In addition, that it is important that your financial plan be reviewed annually to ascertain that your long-term financial goals are still achievable (Business Tech, 2016).

In an article published by Business Tech entitled: "*This is how you can make the most of your savings for retirement*" (Business Tech, 2018), certified financial planner (Citadel Investment), Danie Venter, demonstrates by way of examples how to yield better returns by mixing up retirement savings portfolio's as a better option rather than focusing on one portfolio or investment type.

According to Venter: it is critical to ensure you are saving enough for a financially secure retirement (Business Tech, 2018) and warns how many investors could fall prey to over-contributing towards retirement funds, which in his opinion is a common financial mistake.

“The South African Revenue Service (SARS) allows tax deductions for contributions to a pension fund, provident fund or retirement annuity up to the value of 27.5% of the greater of your taxable income or remuneration. This deduction is also limited to an annual ceiling of R350 000.

This represents a generous tax incentive to increase your retirement savings, but remember that your investment strategy should also take into consideration your tax consequences after retirement,

It’s also worth noting that while contributions above these limits will be added to the tax-free portion of your withdrawal allowance at retirement, these contributions are not adjusted for inflation, losing their value in real terms.” (Business Tech, 2018)

Venter demonstrates a savings mix benefit by use of an example where: “a 44-year old investor named Barnes, who earns R750 000 per annum or R62 500 per month. Barnes lives within his means and has always contributed towards savings, from his first paycheck. A result of his diligent savings strategy is that Barnes now free from any other debt and has accumulated R2 million in is retirement savings pot.

Two scenarios are compared against each other:

1) Barnes decision is to focus solely on retirement savings.
2) Barnes contributes to retirement savings as well as to contribute to a discretionary savings portfolio.

**Scenario 1 – Barnes saves the full tax-deductible amount of 27.5%, allowed by SARS, in retirement savings**

Wishing to retire at the age of 65 years, Barnes increases his retirement fund contributions to 27.5% of his salary, or R17 187 each month, amounting to a total of R206 250 every year. Without retirement savings, Barnes total tax liability would equate to R212 490. Implementing the 27.5% contribution would then mean a tax saving of R81 000 every year, leaving him with a net annual income of R412 175.

Assuming that his contributions increase by six percent (6%) each year in line with inflation, and that his retirement portfolio delivers returns of 8.5% per annum net of fees, his retirement savings would ultimately be worth a princely
R8.9 million in today's value.

Barnes next decides to withdraw the full one-third portion of his retirement savings allowed at retirement, amounting to just under R3 million. As the first R500 000 of the amount withdrawn from your savings is tax-free, Barnes would pay a total of R822 349 in tax on this withdrawal or 27.6%. He then invests the remaining R2.15 million in a discretionary investment portfolio to ensure himself better access to his funds in the event of an emergency and R5.95 million remaining in his retirement savings, which he uses to purchase a living annuity. He selects a 7.5% drawdown level from both his discretionary and his retirement savings for income.

However, future withdrawals from his discretionary savings will be subject to Capital Gains Tax (CGT), which is capped at an effective tax rate of eighteen percent (18%) for individuals and has an annual capital gains exclusion of R40 000 per annum. The income from his retirement savings on the other hand will be subject to Income Tax, which could accumulate to marginal rate of forty five percent (45%).

| **Product** | **Value (Rands)** | **Taxed as** | **Annual Income (Rands)** | **Tax Payable (Rands)** | **Net Total received (Rands)** |
|---|---|---|---|---|---|
| **Retirement Portion** | 5,944,498 | Income Tax | 445,837 | 92,447 | 353,390 |
| **Discretionary Savings** | 2,149,454 | Capital Gains | 171,956 | 92,447 | 152,955 |
| | **8,093,952** | | **617,794** | **111,449** | **506,345** |

***Table 2.5.1: Effect of taxes on retirement funding decisions 1. The table below reflects these principles in the 7.5% drawing made from both his retirement and discretionary portfolios. Data extracted from*** (Business Tech, 2018)***.***

By comparison, had Barnes invested all his savings in a living annuity instead of withdrawing a one-third portion to invest in discretionary savings, he would need to withdraw nearly a third more from his living annuity each year to achieve a similar income, or at least R690,000 per annum.

Which would then be subject to an effective tax rate of 26.2%, meaning that he would also be paying R70 000 more in tax each year than if he had invested a portion in discretionary savings.

| **Product** | **Value (Rands)** | **Taxed as** | **Annual Income (Rands)** | **Tax Payable (Rands)** | **Net Total received (Rands)** |
|---|---|---|---|---|---|
| **Retirement Portion** | 8,916,301 | Income Tax | 690,000 | 180,778 | 509,222 |
| **Discretionary Savings** | 0 | Capital Gains | 0 | 0 | 0 |
| | **8,916,301** | | **690,000** | **180,778** | **509,222** |

***Table 2.5.2: Effect of taxes on retirement funding decisions 2. The table below reflects the result had Barnes invested all his savings into a living annuity*** (Business Tech, 2018)*.*

## Scenario 2 – Barnes saves Fifteen Percent (15%) in retirement savings and the balance in discretionary savings

In this scenario before deciding how best to save towards his retirement Barnes consults a financial adviser, who advises him to consider implementing a discretionary savings portfolio in addition to his retirement savings.

Instead of investing the full 27.5% tax-deductible portion of his salary into retirement savings, Barnes chooses to contribute fifteen percent (15%) of his salary or R9 375 every month to his retirement savings. His net annual income after tax would therefore change to R469 718, instead of R 412 175 where he maximizes his retirement savings contribution (27.5% per scenario 1).

Instead of spending this difference of R57 543, he decides to invest this amount in a discretionary savings portfolio.

Assuming that he again increases his contributions in line with inflation of six percent (6%) every year, and that he achieves the same 8.5% return net of fees, this means that at the age of 65 years Barnes would have a total of R6.4 million in his retirement savings and R1.7 million in discretionary savings.

The discretionary savings is bolstered by withdrawing R1.37 million from his retirement savings, paying only R247 500 in tax. He then invests the R5 million remaining in his retirement savings in a living annuity.

| ***Product*** | ***Value (Rands)*** | ***Taxed as*** | ***Annual Income (Rands)*** | ***Tax Payable (Rands)*** | ***Net Total received (Rands)*** |
|---|---|---|---|---|---|
| ***Retirement Portion*** | *4,971,667* | *Income Tax* | *372,875* | *71,939* | *300,936* |
| ***Discretionary Savings*** | *2,799,354* | *Capital Gains* | *223,948* | *24,609* | *199,339* |
| | ***7,771,021*** | | ***596,823*** | ***96,548*** | ***500,275*** |

***Table 2.5.3: Effect of taxes on retirement funding decisions 3. Illustrating the effect of choosing the option in scenario 2. Data extracted from*** (Business Tech, 2018)

To achieve a similar annual income of over R500 000 as in the first scenario, he would need to withdraw as little as R372 875 or 7.5% from his retirement savings each year, and supplement his annual income by withdrawing just under
R223 948 (Eight percent - 8%) from his discretionary savings. Resulting in a tax saving of R100 000 in comparison to exclusively contributing towards retirement savings (Business Tech, 2018)."

A point of interest in this article is that Danie Venter takes into account the tax implications associated with each savings transaction in both scenarios. The monetary results are considered after taking into account the effects of taxation such as:

- Normal individual Income Tax
- The allowable tax deduction of 27.5%
  Being the greater of:
  (i) Taxable income or
  (ii) Remuneration
  (iii) for contributions toward a provident or pension fund, or a retirement annuity as well as the,
  (iv) ceiling limit of R350 000,
- R500 000 tax-free withdrawal limit upon retirement,
- Capital Gains Tax

This genuinely illustrates the need for financial planners to be well informed and up to date with respect to tax legislation and laws and this need to be taken into consideration when determining adequate retirement funding. Venter demonstrates that an investment portfolio should be diversified, and requires flexibility by pointing out a savings mix that leads to a range of additional benefits.

A straightforward example is that there are no restrictions as to where discretionary investments can be invested, unlike retirement savings. Retirement vehicles are restricted to twenty five percent (25%) of offshore exposure, whereas, in order to protect your investment against a volatile local currency, discretionary savings can be invested offshore in full.

Based on the above examples, put together by financial planners, it is evident that the public at large would place heavy reliance on the advice given by their financial planners. “In order to become a professional financial planner, it is important to have a thorough understanding of the role played in the financial planning process. In addition, an understanding of the term ‘financial planning’, as well as why the process of

financial planning is so important is so important, is also essential (Botha, Rossini, Geach, Goodall, & du Preez, 2017)."

## 2.6. Difficulties faced by South Africans in saving for retirement

Saving for retirement is easier said than done. Whilst we have thus far concentrated on the need for financial planners to better 'educate' retirees and the lack of common financial knowledge of the general public, it is also worth mentioning that most South Africans do not have adequate retirement funding because they simply cannot afford it. Research conducted by Ipsos in February 2017 revealed, "More South Africans were struggling to save for retirement than in 2015 due to rising costs and a flat economy." (Business Tech, 2017)

The survey included over 3 400 South Africans. The survey revealed that 30 % of respondents believed that they would be better off in a years' time with a little over 50% expecting things will not change. (Business Tech, 2017).

Per BusinessTech, "*Most South Africans struggle to save for retirement* (Business Tech, 2017)" weak economic growth was noted in recent years resulting in individuals bearing the burden increasing prices for commodities.

The research group went about to understand the difficulties surrounding affordability and the public was asked how easily or difficult it was for them to afford certain commodities.

*The question asked was "How easy or difficult is it for you to afford the following items* (Business Tech, 2017)*?"*

An analysis was conducted showing the movement or trend based of affordability.

This is an extremely important factor when conducting a financial needs analysis plan, as a financial planner will have to firstly ascertain whether the client can indeed afford to contribute toward retirement funds. This is especially important if the client does not;

receive an increase in salary annually that is above or at least in line with inflationary increases.

Therefore, while the costs of all commodities increase, the client will be in a worse off position every year and this will directly their ability to contribute toward retirement funding.

“The tables below illustrate the change in situation from November 2015 November 2016.

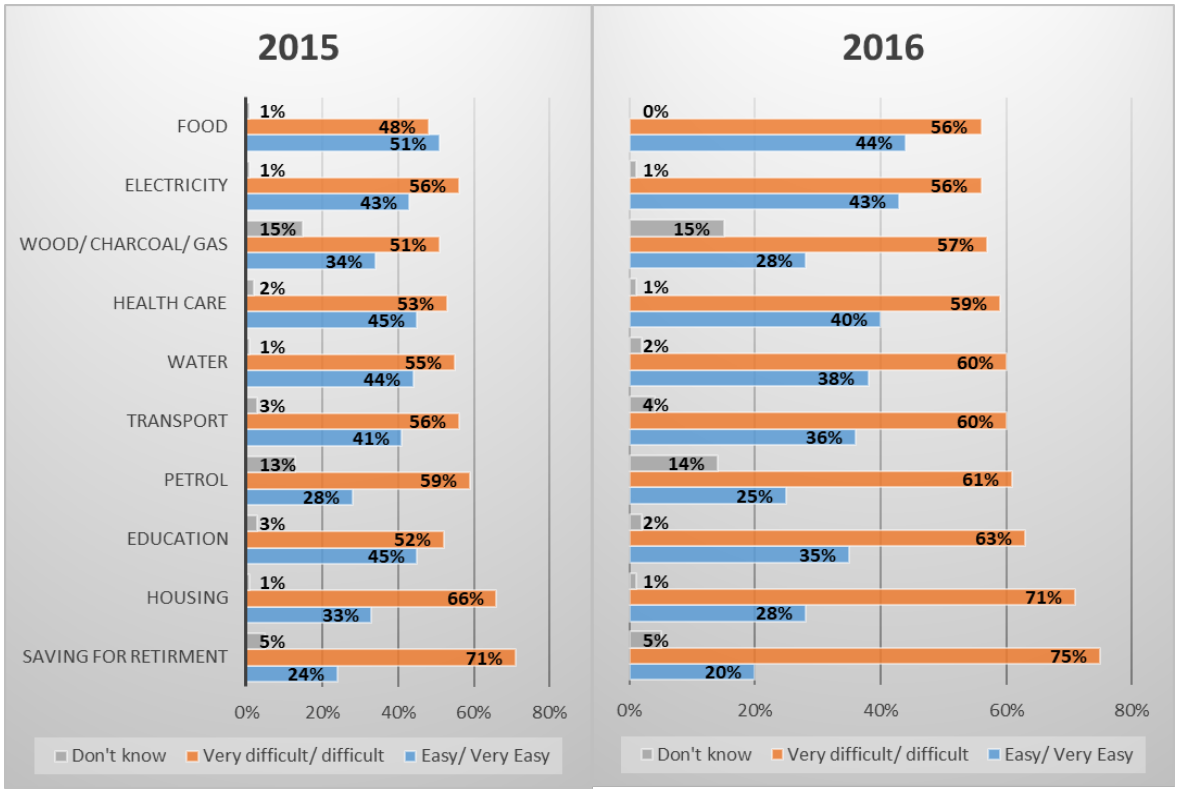



***Table 2.6: Decline in affordability 2015 vs 2016***

The results of the survey as illustrated in the table above, provides clear evidence that regardless of income levels, all South Africans struggle with rising prices. Notwithstanding electricity, South Africans found affordability of all the items to be more difficult in November 2016 than in November 2015. (Business Tech, 2017).

Citizens find it difficult to afford necessary daily commodities and understandably will find it most difficult to set aside funds in an effort to save for retirement.
Whilst retirement funding was difficult to save for as well as to pay for a residence, the public also indicated the further increased difficulty in affording education than in 2015.

Another disconcerting factor is that thirty three percent (33%) of South Africans will still be in debt when retiring, according to Ipsos.

As a matter of interest, Ipsos also observed a sharp increase in difficulty in affording food – although, South Africans are aware of the link between the drought and food price hikes as sixty percent (60%) agreed with the statement: "*The current drought has made food prices unaffordable* (Business Tech, 2017)*."*

### 2.6.1. Costs of retirement that may be overlooked

According to (Tacchino & Saltzman, 1999), the assumption that expenditure is constant throughout retirement years and presented evidence that retired individuals continued to save during early retirement years, was tested. They also stated that spending patterns decline, voluntarily, over an extended retirement period. This research concludes that a retirement needs analysis should incorporate this information into models to avoid overstatement of required amounts to meet retirement goals.

An article published by Business Tech entitled "*How much it costs to move into a retirement home in South Africa"* (Business Tech, 2017)*:* states that retirees and individuals approaching retirement; "may be surprised to discover that the cost of a home in a retirement village is out of their reach. Furthermore, the sale of their existing home might not be enough to afford retirement accommodation (Business Tech, 2017)."

The options considered were old age homes (basic), nursing homes as well as retirement villages and home-based care. A more sustainable and secure quality of living among friendlier communities are more commonly prevalent at retirement villages. Stereotypically, retirement villages provide amenities, essential services and

maintenance facilities. However, affordability is a key factor as these benefits come at the highest price range from the three options considered. Primary health care and frail care can also supplement home-based care in a retirement village.

Costs associated with retirement villages vary with regard to what is offered as well as location and services within the village. According to the 2017, Alexander Forbes benefits Barometer: “With a large lump sum in retirement you can obtain life rights (from R1.3 million), a 99-year lease (from R2.8 million), or sectional or full titles from R2.3 to R3.2 million in a retirement village (Alexander Forbes, 2017).”

Rental schemes are also an option for some retirement villages. “It may then require more than R8 million to cover essential expenses for life in an upmarket retirement village, depending on your gender and age, according to Twané Wessels, a product actuary at Just Retirement (Business Tech, 2017).”

“JustSA has researched what monthly essential expenditure for various accommodation options in retirement will amount to based on monthly rent, and how these expenses will increase from year to year. Monthly expenses are shown below for a basic old age home, a middle-market and an upmarket retirement village (Business Tech, 2017).”

These expenses are anticipated to increase annually above the annual inflation increases. In some instances, this could beat the annual inflation increase by more than three percent (3%).

Frail care includes twenty-four hour (24) nursing, which could also include special services for dementia retirees. Dementia in old age could result in an inability to make simple decisions, memory loss, and impaired communication skills. The increasing probability of dementia in old age indicates the importance of making the appropriate provisions in retirement.

In an upmarket retirement village, monthly expenditure that includes frail care can cost up to approximately R59 250 per retiree.

*"A retiree on a comprehensive plan medical aid plan was assumed in the analysis. Otherwise, instead of a comprehensive plan a hospital plan has been assumed* (Business Tech, 2017)*."*

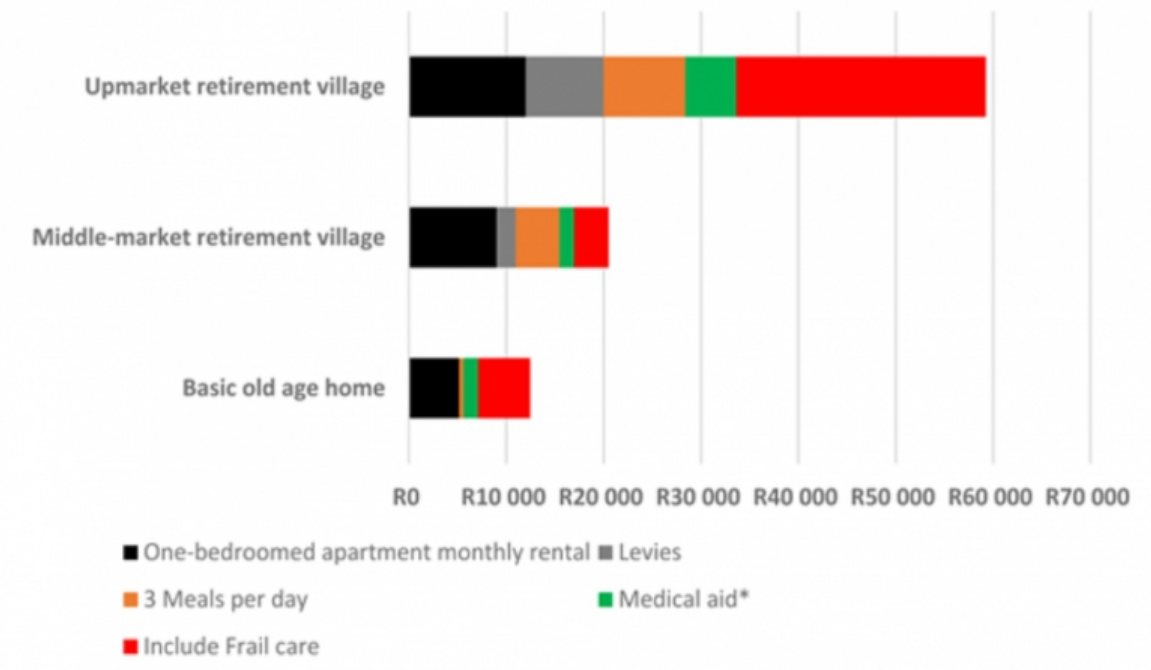



***Table 2.6.1.1: Illustration of monthly expenses showing costs associated with retirement homes from basic old age home to retirement villages. Data sourced from*** (Business Tech, 2017)**."**

| | ***Essential monthly expenditure after tax*** | | |
|---|---|---|---|
| | ***Old age home - Basic (Rands)*** | ***Retirement village - Middle-market (Rands)*** | ***Retirement village - Upmarket (Rands)*** |
| ***Excluding frail care*** | *7,107* | *16,980* | *33,650* |
| ***Including frail care*** | *12,447* | *20,500* | *59,250* |

***Table 2.6.1.2: Table of monthly expenditure after tax from basic old age home to retirement villages, including and excluding frail care. Data sourced from*** (Business Tech, 2017)**.**

Based on the above analysis, the question arises as to how much capital is required to fund a retiree in an old age home for life.

The table above illustrates the monthly amounts required from an individual's after tax income. In order to sustain this income level for life, the effects of tax is essential in the calculation of the capital required at age 75.

| | ***Essential monthly expenditure before tax*** | | |
|---|---|---|---|
| | ***Old age home - Basic (Rands)*** | ***Retirement village - Middle-market (Rands)*** | ***Retirement village - Upmarket (Rands)*** |
| ***Excluding frail care*** | *7,107* | *18,162* | *39,613* |
| ***Including frail care*** | *12,720* | *22,597* | *74,794* |

***Table 2.6.1.3: Illustrating the essential monthly expenditure, before tax, required to secure basic old age home to retirement villages, including and excluding frail care for life. Data sourced from*** (Business Tech, 2017)***.***

The results of the research by JustSA shows that "To cover essential expenses before tax in an upmarket retirement village, including frail care, a male aged 75 would need approximately R8.1 million and a female aged 75 would require approximately R9.8 million.

People can benefit from thinking about their retirement assets in two portions:

- One that secures a level of lifetime income that will meet their essential expenditure needs for life (such as affording a nest in retirement) and is targeted to grow with inflation;
- The remainder to meet their needs for a rainy day, and for long-term growth for themselves and their beneficiaries, knowing that their essential expenses are covered. Given that their essential expenditure is already covered for life, this allows investors to be more adventurous in pursuing long-term investment returns without changing their overall risk appetite (Business Tech, 2017)."

It is worth noting that until recently, financial planners and advisers accordingly "could only offer their clients a choice between a living annuity with a flexible investment

strategy and an inflexible life annuity providing guarantees, upfront at retirement (Business Tech, 2017)."

Literature studying relationships between investment time horizon and asset allocation support the strategy "that longer investment horizons should be associated with more equities while shorter investment horizons require larger portions of fixed income products (Bierman, 1997) (Bodie, Merton, & Samuelson, 1992) (Thorley, 1995)." However, several papers by (Samuelson P. A., 1989) (Samuelson, 1990) (Samuelson,1994) as well as " (Kritzman, 1994) state that asset allocations of an individual are independent of time horizon."

An analysis by (Brady, 2010) describes, "That properly accounting for owner-occupied housing dramatically affects replacement rate measures as under realistic assumptions a homeowner's mortgage payments, net of tax benefits, represents ten to fifteen percent (10-15%) of average pre-retirement earnings. Which suggests that if a mortgage is paid off before retirement, replacement rates are increased substantially."

### 2.7. Attitude and approach toward retirement

The study by (Skinner, 2007) states that "retirement is a heterogeneous experience and is one that depends on health and temperament as well as wealth" and concludes, "Many newly retired households both anticipate a modest decline in consumption and adjust to it." The paper looks at retirement through a socioeconomic viewpoint whilst attempting a reconciliation of widely diverse issues of saving adequacy by touching on numerous stronger issues such as psychology, economics, and health policy to calculate "a hypothetical target wealth that would allow for smoothing consumption through retirement (Skinner, 2007)." The results of achieving a hypothetical target wealth for retirement were inconclusive but found that the more accurate the required saving rates or assets is more meaningful even if this meant comparing equivalence scales, different retirement dates, household structure, forthcoming interest rates or any other values. The author states "In theory, one could use dynamic programming models in a world of risk to solve for the optimal saving plan, but doing so would simply drive home the point that it's never possible to be entirely prepared for retirement. One

wants to also guard against obsessive over saving – scrimping for years only to die before enjoying it – and the difficult part of retirement planning is in finding that balance, nor will the balance be the same for every household." Here it was evident that the author strongly believes that retirement planning should be indicative of the individual's psychological preferences as potential tradeoffs between the desires to shop today against the urge to contribute towards savings for the future.

Citadel advisory partner, Hesta van der Westhuizen says, "For most people the word retirement creates a vision of doing what you want every day and not having to answer to a boss (Business Tech, 2016)," in an article entitled: *"Forget retirement – we all need to plan for another career phase after 60"* (Business Tech, 2016).

However, she further states that for some individuals who are closer to retirement age, the word leaves us disconcerted and uneasy, aware that savings should have started much earlier. As is the case with most young individuals, retirement is almost an "alien concept" with the misconception that it can be thought about and looked after in a far distant future.

However "alien" could also be appropriate for those individuals who are within a decade from retirement. Future strategies experts believe that the world is changing at such a rapid rate and we could experience a change with the impact of the industrial revolution in the near future. Technology, being the main contributing factor to change, shall change our overall way of living.

"Today when you sit down with your financial advisor to plan your retirement, we determine how long your capital should last by looking at your essential expenses on the one hand and your fun stuff on the other (Business Tech, 2016)," says van der Westhuizen.

Expenses ordinarily include providing for transport costs, electricity, and more recently, money needs to be set aside for communication costs such as data. According to van der Westhuizen, "financial planners typically assume you will be travelling more in retirement because you will have time to do so. In addition, that electricity bills will

continue to increase with the plethora of appliances and gadgets we cannot seem to live without. Financial advisors provide for the cost of comprehensive medical aid cover, as well as medical costs not covered by medical aid and – just for good measure – extra for the medical costs we cannot even envisage (Business Tech, 2016)."

To top it off she explains that financial planners will have to provide for, what she refers to as cancer, inflation.

What is normally classified as the fun stuff may include an overseas trip or regular holidays. However, these could also be considered as essential expenses considering how many retiree's children and grandchildren have left South African shores and emigrated worldwide.

"But the futurists now predict that most of us will probably see a world where energy will become so abundantly available through sustainable and 'green' producers that it might even be free – meaning we would not have to pay Eskom prices for electricity. The same goes for data: we will be connected through a worldwide blanket of free Wi-Fi.

Currently we provide for the purchase of at least two cars in retirement – seeing, as you will have so much more time to go places. However, what if car ownership will be replaced by car sharing, where we will simply call a car when we need one and not incur the expense of a money-draining ornament standing idle in the garage?

Does this mean that we can reduce saving for retirement as we will need less capital given that we could well avoid or reduce the cost of many of the expenses we now incur (Business Tech, 2016)?"

An issue is that actuaries were predicting, for decades, that we would live longer by technology and medical progression. The predictions, based on the truth of longevity is no longer a myth. Already, medical progression is keeping people alive for longer, for a

price off course. So, what would happen if life expectancy increases to an age of 120 years?

This will mean a possible retirement of 60 years for most people. “According to the medical profession it will be a much healthier retirement – thanks to developments such as gene therapy and predictive or personalised medicine (Business Tech, 2016).”

With such a long life expectancy, substantially more capital will be required to provide for the “fun” stuff than currently planned.

Regarding medical expenses, it is believed by experts that they will be able to predict more accurately conditions that an individual could suffer from in their old age by using genetic testing.

With such information, one may be able to better estimate medical expenses upon retirement. This does not mean that medical expenses will necessarily be cheaper, just more predictable perhaps. Risk cover products relating to medical expenses can be more effectively factored into retirement capital.

The one question would be what level of inflation should be accounted for in these future expenses?

Realistically, the prospect of living for sixty years of retirement funding is near impossible, suggesting that our lives need to be planned differently.

“For starters, the most consistent, brilliant fund manager will not be able to stretch our retirement capital over 60 years; even if we diligently saved from the very first salary we earned. We all need to plan for another career phase between age 60 and 80. And I do mean career, not simply another job (Business Tech, 2016),” says van der Westhuizen.

The setbacks of planning a career after 60, like the reality today, is that a second corporate career is not probable, even if it was your first career.

According to van der Westhuizen: “Another career phase would probably mean starting a venture which will require a substantial capital outlay. And our retirement – or adapted life plans – will need to make provision for this (Business Tech, 2016).”

As evidenced in the preceding paragraphs, an important factor to consider in financial planning is the hard knock of inflation on an individual’s savings capacity. The extent of the negative impact of inflation on an investment can be so harsh that it has been termed financial cancer by some authors. Increasing levels of inflation increased the costs of living has obviously placed consumer pressure when attempting to secure living standards within the same income level.

According to the Channel Head of FNB, Preenay Sathu: “As a result, these changes impact expenses that one would encounter at retirement and as such directly impacts your retirement aspirations which would need to be reassessed (Business Tech, 2017).”

With reference to BusinessTech, “*The best way to make sure your retirement beats inflation”* (Business Tech, 2017) “When saving for retirement, inflation should be taken into consideration by means of ensuring that whatever amount is saved matches or can beat inflationary increases. This is to ensure that at retirement you have saved enough to maintain a certain standard of living (Business Tech, 2017).”

Within this line of thinking, it is imperative that increasing premium contributions are matched to the very least the increase in inflation rate annually, in an effort to ensure that retirement goals are met safely.

Although most financial service providers take into consideration the effects of inflation in designing retirement plans, it is just as important that the investor take the initiative to check periodically that you are indeed contributing within the acceptable range of inflation.

Sathu further highlights the importance of looking at other savings initiatives. “Besides matching your annual premium contribution increase for retirement to inflation, there other ways South Africans should look at when trying to bulk retirement savings.

Instead of solely relying on your employer pension scheme, supplement it with another retirement vehicle such as a retirement annuity. Another option is to diversify your investments by ensuring that your portfolio has fair weighting to different asset classes such as shares – while they may be volatile in the short-term, shares are likely to produce higher than inflation growth in the long-term (Business Tech, 2017).”

Other asset classes, which one could expose themselves to in establishing a diversified total investment portfolio are pointed out in the form “cash, bonds, property, and commodities which can be a combination of local and offshore (Business Tech, 2017).”

Another key aspect that generally goes unnoticed when saving for retirement is that individuals, who receive a thirteenth cheque or bonus, should contribute a portion of this “additional” income into retirement savings annually.

The article concludes by stating that retirement savings requires an individual to pay close attention in an effort to avoid surprises when their working life ceases, as is the case with any other investment type.

## 2.8. Dependency on others in retirement

Based on literature and basic economical knowledge it is evident that a large number of South Africans will not be able to support themselves into retirement, this is also the conclusion reached according to Old Mutual's latest Savings and Investment Monitor report (Old Mutual, 2017).

The report puts together the investment and savings habits of working metro households in South Africa, based on a number of surveys during a financial year.

A survey sample comprises 1 000 South African working households in the main metropolitan cities of Cape Town, Pretoria, Johannesburg, Bloemfontein, Durban, East London and Port Elizabeth. The survey is conducted two times annually. Namely during May and June for the July update, as well as during September and October for the November update.
A different sample of 1 000 households are interviewed for each update in the year.

To ensure that the survey sample is a reflection of working metro population in the country, which is approximately five million; all respondents work either in the informal or formal sectors. Comprehensive household income ranges from less than R3 000 per month to more than R40 000 per month in the sample.

The level of dependency, of those surveyed, upon entering retirement is a key focus area of the report. The dependency on reliance of children as well as support from the government is looked at in the survey.

*"*HH – Household income per month*

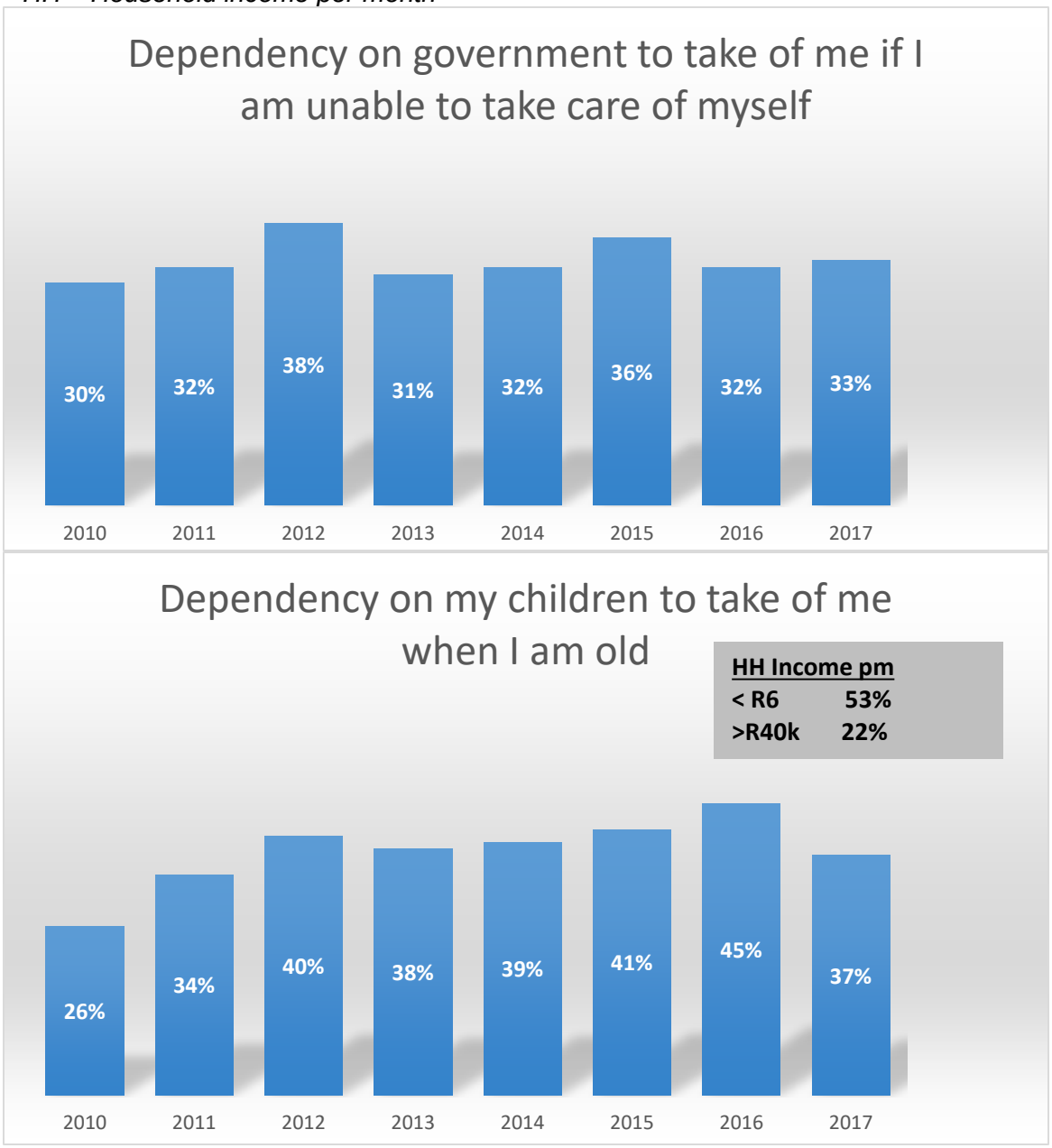
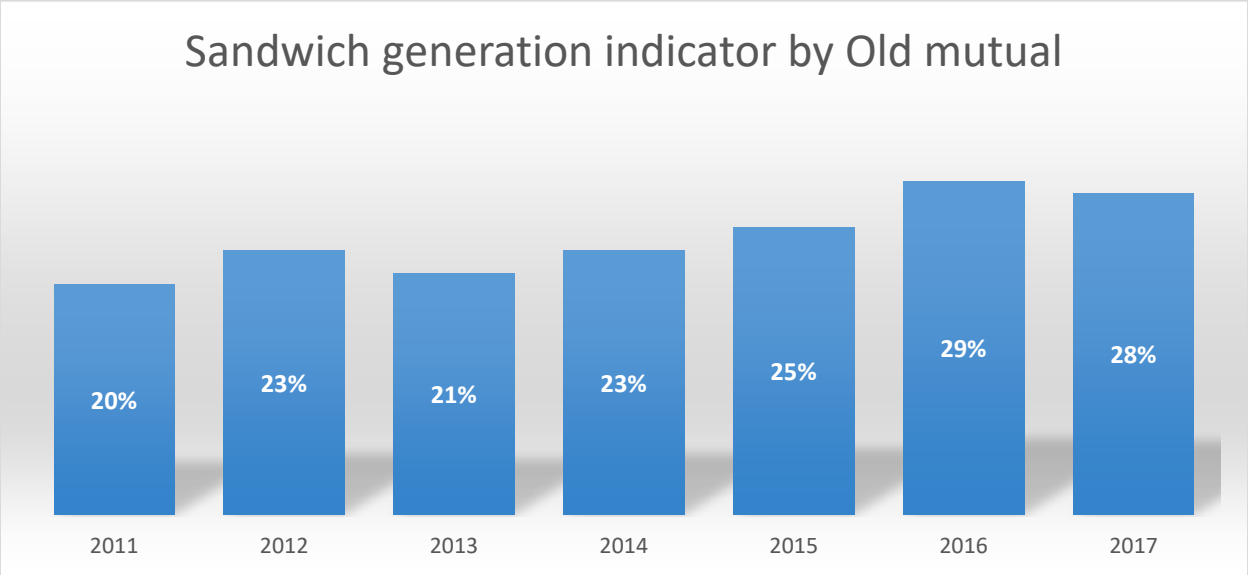



***Table 2.8.1: Dependency on others in retirement. Graphs illustrating the fluctuations of how much individuals will rely on their children and the government upon retirement over the past eight years. Data sourced from*** (Old Mutual, 2017)**."**

A further financial stress on households in South Africa is that individuals may have to support their parents into retirement as well as support children of their own.

Economists dub this scenario as the “Sandwich Generation.” The sandwich generation are people ranging in their thirties or forties who are responsible for both the caring of their ageing parents as well as bringing up children of their own.



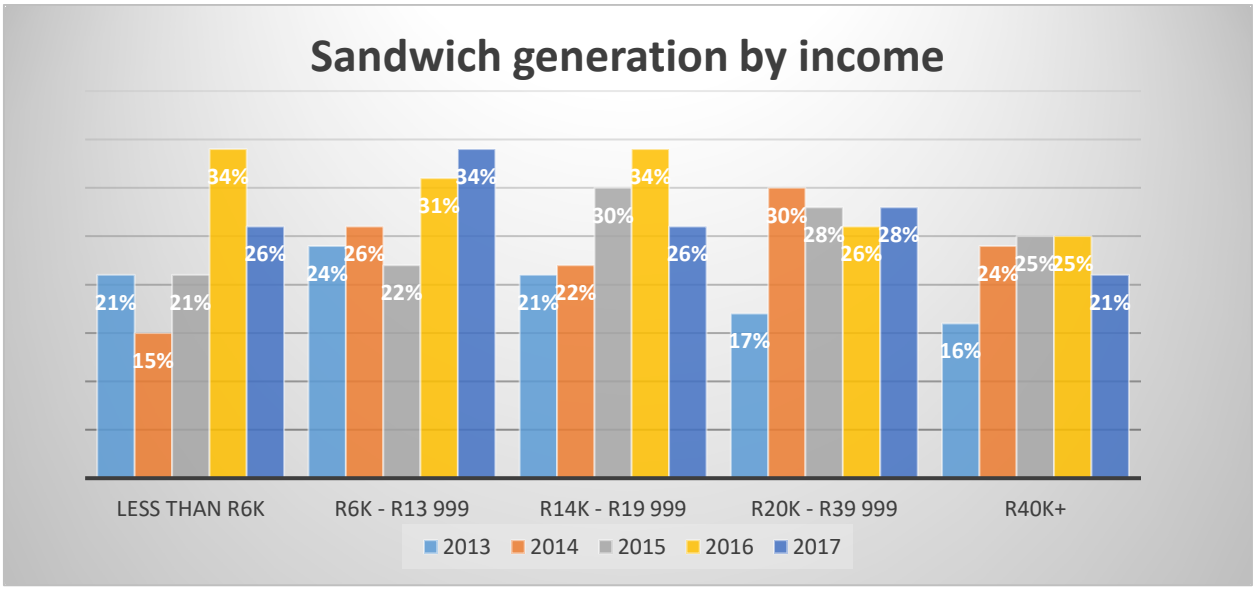




***Table 2.8.2: The sandwich generation. Graphs illustrating the “sandwich generation” over the five eight years and sandwich generation by income over the past five years. Data sourced from*** (Old Mutual, 2017)***.***

### 2.8.1 South Africa not an ideal place to retire if reliance is placed on government

A non-pleasing statistic for South African citizens is that according to the Global Retirement Index 2015, South Africa ranks as one of the worst countries worldwide to retire in (Business Tech, 2015). This further deepens the plea of retirees' that depend on government support.

"Compiled by Natixis Global Asset Management, The Global Retirement Index assessed 150 countries in the world on four key areas relating to retirement (Business Tech, 2015)."

"The index looks at retirement security in each country in terms of material well-being (ability to live comfortably), health (quality of health services), finances (quality of financial services) and quality of life (Business Tech, 2015)."

South Africa ranked 130th of the 150 countries evaluated in 2015. Looked at another way, South Africa ranks as the 21st worst country to retire in worldwide.

This trend has steadily worsened in recent years, with South Africa ranked 115th in 2014 dropping a further sixteen places from 99th in 2013.

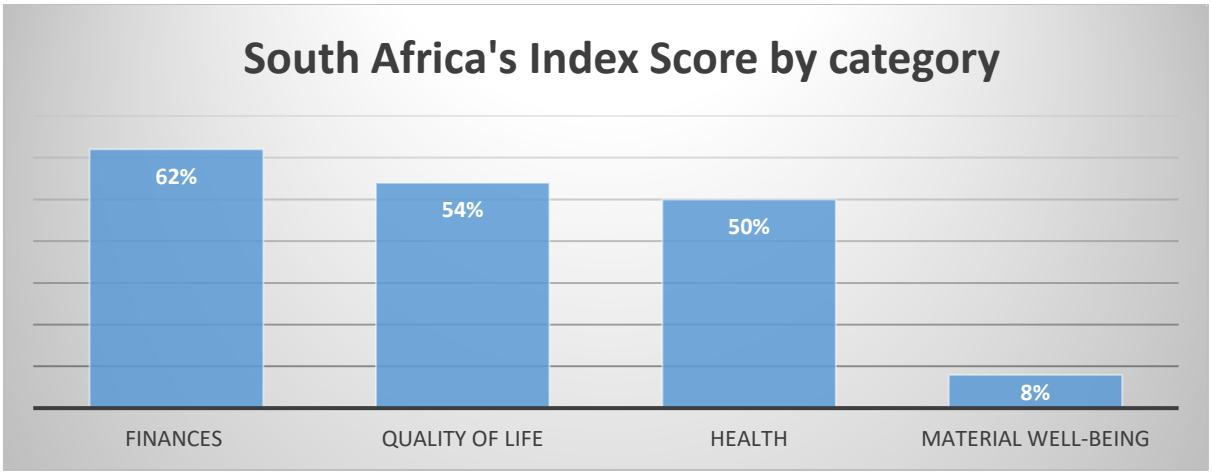



***Table 2.8.1.2: South Africa's index score by category***

"*South Africa's overall Index score for 2015 was thirty-four percent 34%, (2014: forty percent - 40%; 2013: forty nine percent - 49%), with the highest-performing indicator being the country's financial sector with sixty two percent (62%)* (Business Tech, 2015)*."*

South Africa scored the lowest of 150 countries when it came to material well-being, a mere eight percent (8%).

Income inequality, unemployment levels and individual factors that measure the material well-being sub-index.

South Africa scored extremely poorly when assessing income per capita with income inequality at one of the highest rates worldwide, as also pointed from the report.

"The range between the top score in the material well-being sub-index and the bottom one is eighty seven percent (87%), signaling an extreme discrepancy of material wealth between the richest and poorest countries (Business Tech, 2015)."

## 2.9. Reliance on financial planners for adequate retirement funding advice

Although the figures used in the previous examples are neatly rounded and certainly sound achievable, can anyone put any certainty into using numbers such as R1 million, 12 times your annual salary or 15 times your annual salary. This is why society rely on financial planners, not just to provide clean figures but to offer a holistic overall view on retirement thus providing their clients with peace of mind, after all is peace not what retirement is all about?

(Greninger, Hampton, Kitt, & Jacquet, 2000), attempted to find a consensus between financial planners and educators, using a Delphi research design among a panel of 188 experts, comprising of 75 financial and 113 educators, to determine a retirement planning guideline. Consensus was found for using a four percent "(4%) inflation rate, an 8.5% rate of return on investments, and a replacement ratio of seventy to eighty nine percent (70-89%) of current income when making retirement projections. There was more agreement on the guidelines for planning assumptions and meeting retirement needs than about timing and asset allocation. Nine-tenths of the experts agreed that families should have achieved fifty to sixty percent (50-60%) of their retirement savings goal by age 50 and eighty five to ninety percent (85-90%) by age 60. Over sixty percent (60%) of the experts felt that it was prudent to start moving toward more conservative investments about three to five years before retirement. Recommendations were developed on the proportion of growth-oriented equities to hold at various points prior to and after retiring (Greninger, Hampton, Kitt, & Jacquet, 2000)."

Although the consensus level was indeed high, there were noted differences between gender and occupation. There were more males than females, fifty five percent (55%) versus forty-five percent (45%) respectively. Financial planners were predominantly male (seventy seven percent - 77%) and educators were predominantly female (fifty nine - 59%) creating a significant relationship between occupation and gender in the sample.

“There was also a significant difference in the educational level of the two occupational subgroups. As might be expected, the planners were more likely to possess bachelor degrees whereas the educators were more likely to possess advanced postgraduate degrees particularly at the doctoral level. As with much research, the results of this project raised as many questions as it provided answers. On the guidelines where there was a high level of agreement, it would be useful to know how the advice stacks up against the reality of what families and individuals are actually doing (Greninger, Hampton, Kitt, & Jacquet, 2000).”

Specifically, it would be valuable to know what predetermined guidelines people think of regarding retirement funding and how well those compare to expert opinions.

Research has also been conducted regarding asset allocation as well as retirement age considering life both before retirement and during retirement, whereby the need to reassess the retirement needs analysis on a periodical basis is reinforced. “Indications that retirement age increases, as people get older and does not necessarily end at age 65 is discussed by (Montalto, Yuh, & Hanna, 2000).”

Others investigated important various factors such as “social security, pensions and health status that could potentially affect retirement age (Samwick, 1998); (Uccello, 1998).” All these factors are also considered in the preceding paragraphs of this chapter.

A rule of thumb used in the United States of America, by investment advisors, often assumes that “individuals need to save enough to replace seventy five to eighty percent (75-80%) of their pre-retirement income during retirement. This rule of thumb can be traced back to the *Interim Report of the President’s Commission on pension Policy* published in 1980, in which a ratio of less than one hundred percent (100%) accounts for the fact income saved prior to retirement need not be replaced and the fact that effective tax rates typically decline upon retirement (Brady, 2010).”

It is worth mentioning that a decline in tax rates, post retirement, also holds true in South Africa however, more recent studies suggest that such a replacement target is considered too low. Examples include “ (Alford, Farnen, & Schachet, 2004) that suggest adequate replacement rates range from seventy five to ninety percent (75-90%) of pre-retirement income”; and “ (Steinberg & Lucas, 2004) suggest that an adequate replacement rate would range from eighty five to ninety percent (85-90%).”

In his journal: Measuring retirement resource adequacy (Brady, 2010), contests the assumption “that individuals need to save enough to replace seventy five to eighty percent (75-80%) of their final pay and develops a replacement rate measure to better correspond with a replacement of consumption (Brady, 2010).”

This was achieved by accurately taking into account owner-occupied housing, savings and taxes. The study attempted to calculate the level of replacement of pre-retirement consumption instead of income, expenditures and earnings during retirement. “Investment and savings behavior judged inadequate by standard analysis resulted in high real consumption during retirement relative to pre-retirement consumption (Brady, 2010).”

“For example, the simulated savings and investment behavior of single individuals in this study results in retirement income of about sixty percent (60%) of final earnings, well below the typical adequacy threshold of seventy five to eighty percent (75-80%). However, this corresponds to replacing about ninety percent (90%) of pre-retirement consumption for renters and over one hundred percent (100%) for homeowners who have paid off their mortgage.” The paper states, “Traditional replacement rate calculations suffer from at least three shortcomings.

Namely:

1) Replacement rates are calculated using nominal retirement income, typically with nominal final pay as the denominator,
2) The analysis fails to treat savings as endogenous or (having an internal origin), and
3) The analysis does not properly account for owner-occupied housing.”

This study showed that “investment and savings behavior, normally judged inadequate by standard analysis does result in high real consumption in retirement relative to pre-retirement consumption (Brady, 2010).” The paper showed that an individual earning $35 000 a year who begins saving six percent (6%) of earnings from age 42 can achieve adequate retirement savings even though the results did not rely on overly optimistic assumptions about investment returns or require investment in risky assets without the risk of individuals outliving their assets being ignored. “By using a replacement rate measure more consistent with consumption smoothening, the paper concludes that relatively moderate savings can fund adequate consumption during retirement (Brady, 2010).”

## 2.10. Conclusion

Various research are in existence with regard to replacement ratios, retirement age, inflation, asset allocation and other key considerations that could be taken into account to be specifically applied to a retirement needs analysis by a financial advisor. However, current literature generally appears to focus on specific aspects in isolation and does not address all key factors, assumptions and forward thinking in order to develop a complete retirement capital needs model in South Africa that would assist ‘layman’ individuals to better understand. Key factors, assumptions and forward thinking seem to only be researched and/or commented on, in individual bits and pieces by different authors in the preceding literature above. This paper will therefore explore guidelines used by financial planners over and above other important retirement financial planning factors that could hinder or enhance a successful retirement plan, retirement needs and asset allocations in South Africa. This chapter reviewed the limited current literature available on retirement financial planning in order to build a research methodology for this study in the next Chapter.

# CHAPTER 3
# RESEARCH METHODOLOGY

## 3.1. Introduction

“Methodology focuses on the best method to gain knowledge about the world (Denzin & Lincoln, 2011).” “Human behavior can only be understood from an insider’s point of view by gaining insight into the meaning that the participant gives to his/her life world (Schurink, 2009).” Dialect and interpretive understanding (hermeneutics) is how knowledge is gained. The qualitative data technique was used by the development of a questionnaire with Likert scale responses to several retirement financial planning considerations, to gain knowledge of human behavior, specifically financial planners views on retirement. This chapter will discuss the research design and methodology by focusing on the problem statements as well as the study objectives developed based on the literature review in the previous chapter.

## 3.2. Aim and motivation for the study

The aim of this study is to simplify complicated financial planning jargon and will endeavour to provide key element areas of financial planning so that persons of any social status can make informed decisions regarding retirement funding with a realistic target or goal depending on their financial circumstances. In doing so; a person will be better informed and prepared when enquiring or using the services of a financial planner to provide for their retirement years.

This study was motivated by the lack of common understanding about retirement planning by the public at large. It is often perceived that adequate retirement funding can only be achieved by a society of a higher social status or higher income level (Sanlam, 2016). However, if general guidelines and planning considerations can be ascertained, it would allow society, at large, an opportunity to practice retirement planning as soon as possible, regardless of their social status. A further motivation for the study is to emphasize the importance of adequate retirement funding to society, specifically South Africans, who live in a volatile economic environment where savings of any form are considered a luxury rather than an aspirational necessity.

### 3.3. Problem statement

Retirement is one of, if not, the most important planning decisions an individual will make in their lifetime (Blaine & Smith, 2016), this research asks several questions that previous studies in South Africa to date have addressed in isolation rather than totality. This research will attempt to clarify whether there are basic retirement planning guidelines recommended by financial planners in developing a retirement financial plan and if any consensus or agreement exists amongst financial planners with respect to these guidelines.

This research will also attempt to bring to surface any differences of opinion that may exist because of different educational and demographic subgroups of financial planners.

This study was embarked upon in an effort to answer the problem statements mentioned above. Although a similar study was conducted in the United States of America, namely: “Retirement planning guidelines: A Delphi study of financial planners and educators (Greninger, Hampton, Kitt, & Jacquet, 2000),” a gap exists in current literature as no such research has been conducted in the South African context. Research tools and search engines such as Google, Google scholar, The University of KwaZulu-Natal library, and the University of Cape Town library were used to extract journal articles that were relevant to the study; however, no research exists that addresses retirement planning from the view that this study will investigate the phenomenon.

Current literature in South Africa pertaining to the above mentioned issues generally focus on specific aspects in isolation and do not address all key factors, assumptions and forward thinking in order to develop a complete retirement capital needs model with the intention to better enhance a nonprofessional or layman individual’s understanding of retirement funding. This presents another gap in literature in South Africa, which this research wishes to fulfill as far as possible.

Although acknowledgement must be made that guidelines must be reviewed with respect to the contextual situation that include factors such as an individual's or family's current financial status and age, socio-economic conditions and an individuals' personal retirement goals, this research aims to determine a basic foundation for retirement financial considerations by means of a consensus-developing process.

The study can be seen as part of a broader project with the intention to identify, establish and refine a benchmark for financial well-being.

### 3.4. Objectives of the study

As mentioned in Chapter 1 the objectives of the research study are:

(1) To ascertain retirement planning considerations and guidelines from financial planners.

(2) To determine if a consensus exists, amongst financial planners, regarding retirement planning considerations and guidelines.

(3) To determine what differences of opinions might exist between educational and demographic subgroups of financial planners.

### 3.5. Data collection strategy

This study will utilise a qualitative research methodology approach whereby financial planners throughout the province of KwaZulu-Natal were queried in a mailed out questionnaire designed to satisfy the objectives in section **3.4** above.

With Kwazulu-Natal being the second most populous province in the country (first is Gauteng) that includes one of the four financial hubs cities namely; Durban (The others being Johannesburg, Cape Town and Nelson Mandela Bay metro), it was considered a reasonable assumption to extrapolate the results obtained from this study throughout the rest of the country.

As at 2017, KwaZulu-Natal has 704 financial planners on the Financial Planning Institute of Sothern Africa database (Financial Planning Institute of Southern Africa, 2017). The researcher approached the Financial Planning Institute of Southern Africa

to email the study questionnaire on his behalf to participants, as they were, understandably not willing to divulge personal information of their members such as their e-mail addresses, to the researcher. The total number of financial planners in KwaZulu-Natal were sourced from the Financial Planning Institute of South Africa database.

The Financial Planning Institute of Southern Africa sent out questionnaires via e-mail to financial planners in KwaZulu-Natal on 30 October 2017, with weekly reminders, thereafter, urging members to participate in the study.

Due to the poor response rate of only nine (9) completed questionnaires received, the researcher requested permission to distribute hard copies of the questionnaire at an event hosted by the Financial Planning Institute of Southern Africa in Durban on 15 November 2017.

The Financial Planning Institute of Southern Africa dually accepted the researchers request and once again distributed hard copies of the questionnaire at the event, on behalf of the researcher. The alternative plan proved to yield a better response rate as forty-one (41) questionnaires were completed. The e-mail responses remained at nine (9) when the researcher closed the e-mail questionnaire responses on 22 January 2018.

There is no specific reason for the poor response rate. Probable explanations could include a general lack of interest of financial planners in completing questionnaires, financial planners fear of responses being reviewed by the Financial Planning Institute of Southern Africa should they answer a question that is not in line with the laws and regulations of the industry or simply ignoring any e-mails that involve research studies.

## 3.6. Research methods and design

### 3.6.1. Description and purpose

The study used a qualitative research methodology to collect primary data. A questionnaire was designed to be distributed to financial planners in KwaZulu-Natal on the Financial Planning Institute of Southern Africa database. The data, obtained from the responses, was analysed using the Statistical Package for Social Sciences (or SPSS) to formulate conclusions based on the responses received. Both the electronic and hard copy questionnaires made use of an informed consent letter, required to be completed by the respondents indicating that participation in the project was purely voluntary and that no other persons except for the researcher and his supervisor will have access to such information. Participants also had the option of disclosing their names or to remain anonymous, as well as to opt out of the research population if so desired. Regardless of their choice to disclose their names or not, no identification of any sort was used in the analysis stage of the study nor disclosed in any texts in the completion of the dissertation.

#### 3.6.1.1. Construction of the data collection instrument

A questionnaire was designed to collect both demographic and informative data considered useful to meet the objectives of the research. The questionnaire began with a general multiple-choice section – relating to demographic information such as highest academic qualification, industry experience, race and gender. The remainder of the questionnaire entailed thirty one (31) questions were participants rated their level of agreements on a “5-point Likert scale, where 1 = definitely do not agree, 2 = do not agree, 3 = uncertain, 4 = agree, 5 = strongly agree.” These scale responses allowed differences to be tested between the educational, racial and gender subgroups. Respondents would tick a box that based on their opinion on the questions asked. The questions related to assumptions, processes and information that financial planners use in order to create a retirement financial plan. The 5-point Likert scale questions related directly to the objectives 1 and 2 of the study whereby respondents would respond to retirement planning considerations and guidelines they would use to create a retirement financial plan. From these responses, the data was further analysed to

determine if any consensus exists amongst financial planners with respect to the guidelines and considerations. The demographic information of respondents was then tested to the Likert scale responses to determine if any differences of opinion exist between respondents as a result to their different educational and demographic subgroups.

Gatekeeper's permission was required from the Financial Planning Institute of Southern Africa as they acted as the researchers' proxy in sending out the questionnaire to financial planners on their database. Gatekeeper's permission was received on 20 September 2017, which allowed the researcher to complete the application for ethical clearance from the University of KwaZulu-Natal. The researcher then applied for ethical clearance to the University of KwaZulu-Natal Humanities and Social Sciences Ethics Committee. Full approval was granted on 6 October 2017. Ethical Clearance approval number: HSS/1622/017M.

#### 3.6.1.2. Recruitment of participants for the study

Once the ethical clearance was obtained, the Financial Planning Institute of Southern Africa distributed the questionnaires on the researcher's behalf to 704 financial planners in KwaZulu-Natal. Questionnaires were sent out via e-mail to financial planners in KwaZulu-Natal on 30 October 2017, by the Financial Planning Institute of Southern Africa, with weekly reminders to respond sent out as well. As well as the distribution of hard copy questionnaires to financial planners at the Financial Planning Institute of Southern Africa's 2017 update event in November.

### 3.6.2. Pretesting and Validation

The case processing summary is presented in the table below:

*Table 3.6.2.1: Case-processing summary*

| Case Processing Summary | | | |
|---|---|---|---|
| | | N | % |
| Cases | Valid | 50 | 100.0 |
| | Excluded[a] | 0 | 0.0 |
| | Total | 50 | 100.0 |
| a. List-wise deletion based on all variables in the procedure. | | | |

The processing summary above relates to the 50 completed questionnaires received and indicates that all questions in all 50 questionnaires were answered with 0% excluded.

The reliability statistics is presented in the table below:

*Table 3.6.2.2: Reliability Statistics*

| Reliability Statistics | | |
|---|---|---|
| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
| 0.883 | 0.902 | 31 |

The reliability statistics in the table above relates to the 31 Likert scale questions used in the questionnaire. In order to measure the scale reliability, the Cronbach's Alpha analysis was used to measure how closely the 31 Likert scale questions are as a group related. The Cronbach Alpha coefficient for the 31 items is 0.883 indicating a high internal consistency. An alpha coefficient of 0.7 or higher is acceptable, with 1.0 being a 100% consistency.

The Item-Total Statistic is presented in the table below:

***Table 3.6.2.3: Item-Total Statistics***

| **Item-Total Statistics** | | | | |
|---|---|---|---|---|
| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
| Client's age | 133.98 | 91.244 | 0.438 | 0.880 |
| Client's expected retirement age | 133.96 | 91.100 | 0.416 | 0.880 |
| Whether the client has an aspirational retirement age or a forced retirement due to employment policy | 134.44 | 88.007 | 0.437 | 0.879 |
| The client's income needs on a monthly basis (Post tax) | 134.06 | 89.609 | 0.357 | 0.880 |
| Current retirement provisions of the client | 133.98 | 90.755 | 0.508 | 0.879 |
| Any lump sum requirement at retirement | 134.06 | 90.670 | 0.441 | 0.879 |
| The client's retirement aspirations versus reality | 134.10 | 90.459 | 0.442 | 0.879 |
| Specificity of financial goals | 134.32 | 87.855 | 0.542 | 0.877 |
| Funding others in retirement (Such as dependents, children or other family members) | 134.56 | 87.313 | 0.356 | 0.882 |
| Extent to which retirement funding is funded by and consumed between individual spouses | 134.78 | 86.338 | 0.465 | 0.878 |

| | | | | |
|---|---|---|---|---|
| Potential income shortfalls in retirement | 134.06 | 88.792 | 0.608 | 0.876 |
| Continued saving in retirement | 134.94 | 89.853 | 0.217 | 0.885 |
| Diversification between and within investment types | 134.22 | 89.318 | 0.418 | 0.879 |
| Asset allocation appropriate for life cycle stage and goals | 134.20 | 90.735 | 0.276 | 0.882 |
| Extent and adequacy of regular savings/ investing programs | 134.26 | 87.788 | 0.588 | 0.876 |
| Cash reserves and liquidity | 134.20 | 87.592 | 0.665 | 0.875 |
| Exposure and solvency | 134.56 | 86.578 | 0.525 | 0.876 |
| Debt safety level | 134.68 | 87.773 | 0.474 | 0.878 |
| Housing expenditure relative to income level | 134.36 | 87.378 | 0.500 | 0.877 |
| Tax burden | 134.32 | 88.834 | 0.455 | 0.878 |
| Inflation protection | 134.14 | 90.286 | 0.443 | 0.879 |
| Frequency of financial review of client's portfolio | 134.04 | 90.651 | 0.370 | 0.880 |
| Progress toward goal attainment | 134.14 | 89.388 | 0.498 | 0.878 |
| Adequacy of life insurance coverage | 134.40 | 86.980 | 0.592 | 0.875 |
| Adequacy of medical insurance coverage | 134.28 | 87.757 | 0.398 | 0.880 |
| Adequacy of disability insurance coverage | 134.78 | 86.991 | 0.335 | 0.883 |
| Adequacy of property insurance coverage | 135.14 | 86.164 | 0.385 | 0.881 |

| | | | | |
|---|---|---|---|---|
| Protection from liability exposure | 134.90 | 89.031 | 0.283 | 0.883 |
| Adequacy of long-term care coverage | 134.50 | 89.031 | 0.408 | 0.879 |
| Adequacy of retirement planning given life cycle stage and goals | 134.14 | 88.776 | 0.563 | 0.877 |
| Adequacy of estate planning | 134.10 | 90.582 | 0.386 | 0.880 |

The item-total statistic determines the change in the Cronbach's Alpha should a question be deleted from the group. If the change by removing a question results in a Cronbach Alpha greater than 0.883, the question is considered to less significant. Based on the results above it is evident that removing any particular question from the group does not alter the Cronbach Alpha to a material extent.

***Table 3.6.2.4: Descriptive statistics***

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Client's age | 50 | 4 | 5 | 4.84 | 0.370 |
| Client's expected retirement age | 50 | 3 | 5 | 4.86 | 0.405 |
| Whether the client has an aspirational retirement age or a forced retirement due to employment policy | 50 | 2 | 5 | 4.38 | 0.725 |
| The client's income needs on a monthly basis (Post tax) | 50 | 1 | 5 | 4.76 | 0.657 |
| Current retirement provisions of the client | 50 | 4 | 5 | 4.84 | 0.370 |
| Any lump sum requirement at retirement | 50 | 4 | 5 | 4.76 | 0.431 |
| The client's retirement aspirations versus reality | 50 | 4 | 5 | 4.72 | 0.454 |
| Specificity of financial goals | 50 | 3 | 5 | 4.50 | 0.614 |
| Funding others in retirement (Such as dependents, children or other family members) | 50 | 1 | 5 | 4.26 | 0.944 |
| Extent to which retirement funding is funded by and consumed between individual spouses | 50 | 2 | 5 | 4.04 | 0.856 |
| Potential income shortfalls in retirement | 50 | 3 | 5 | 4.76 | 0.476 |
| Continued saving in retirement | 50 | 2 | 5 | 3.88 | 0.918 |

| | | | | | |
|---|---|---|---|---|---|
| Diversification between and within investment types | 50 | 3 | 5 | 4.60 | 0.606 |
| Asset allocation appropriate for life cycle stage and goals | 50 | 3 | 5 | 4.62 | 0.635 |
| Extent and adequacy of regular savings/ investing programs | 50 | 3 | 5 | 4.56 | 0.577 |
| Cash reserves and liquidity | 50 | 3 | 5 | 4.62 | 0.530 |
| Exposure and solvency | 50 | 3 | 5 | 4.26 | 0.751 |
| Debt safety level | 50 | 3 | 5 | 4.14 | 0.700 |
| Housing expenditure relative to income level | 50 | 2 | 5 | 4.46 | 0.706 |
| Tax burden | 50 | 3 | 5 | 4.50 | 0.614 |
| Inflation protection | 50 | 4 | 5 | 4.68 | 0.471 |
| Frequency of financial review of client's portfolio | 50 | 3 | 5 | 4.78 | 0.507 |
| Progress toward goal attainment | 50 | 3 | 5 | 4.68 | 0.513 |
| Adequacy of life insurance coverage | 50 | 3 | 5 | 4.42 | 0.642 |
| Adequacy of medical insurance coverage | 50 | 1 | 5 | 4.54 | 0.813 |
| Adequacy of disability insurance coverage | 50 | 2 | 5 | 4.04 | 1.029 |
| Adequacy of property insurance coverage | 50 | 1 | 5 | 3.68 | 1.019 |
| Protection from liability exposure | 50 | 2 | 5 | 3.92 | 0.877 |
| Adequacy of long-term care coverage | 50 | 3 | 5 | 4.32 | 0.653 |

| | | | | | |
|---|---|---|---|---|---|
| Adequacy of retirement planning given life cycle stage and goals | 50 | 3 | 5 | 4.68 | 0.513 |
| Adequacy of estate planning | 50 | 3 | 5 | 4.72 | 0.497 |
| Valid N (list-wise) | 50 | | | | |

The majority of the items have a mean or average above four, which according to the Likert scale parameters used, indicates that respondents agreed with the majority of the considerations in the questionnaire. A mean or average of 3 or below would indicate that respondents were unsure or disagreed with the considerations; this does not apply to the data above as all questions have a mean well above 3.

### 3.6.3. Administration of the Questionnaires

The data collected, via the questionnaire that was distributed via e-mail to financial planners in KwaZulu-Natal as well as the hard copy questionnaires that were manually completed at the Financial Institute of Southern Africa update event, were received via e-mail or collected directly by the researcher, without any access of information allowed to any unauthorized persons.

## 3.7. Analysis of data

All responses, both hard copies and electronic were captured, by the researcher, into the SPPS program for all intention of the analysis and the interpretation of the results.

## 3.8. Limitation of the study

The limitation of the study was the poor response rate from financial planners in completing the questionnaires. Considering the fact that the questionnaires were sent out to all 704 financial planners in KwaZulu-Natal on the Financial Planning Institute of Southern Africa database, a response of only 50 participants or fourteen percent (14%) was certainly disappointing. The limitation is that the responses received were inadequate to create a broader base for financial planners views, based on the data obtained, to be extrapolated to the entire province or country.

## 3.9. Correlation Analysis

The Pearson Chi-Square analysis was used to determine whether any correlation exists between respondent demographic details and their responses to the considerations when developing a retirement financial plan. Further explanation of the Pearson Chi-Square test, its results and discussion of results is detailed in section 4.3 in Chapter 4.

## 3.10. Conclusion

Considering the low response rate of fourteen percent (14%), it is still believed that this paper can still set, or assist in creating, an important benchmark for further research in the area that can be extended to other provinces within South Africa hopefully with a greater response rate in order to extrapolate such data to the country as a whole. This chapter described the research design and methodology used by the researcher in order to obtain the required research data from respondents. The next chapter will analyse the results of the research data by using data analysis software SPPS with commentary on the results of the several tests performed.

# CHAPTER FOUR

# RESEARCH RESULTS AND ANALYSIS

## 4.1. Introduction

The chapter will present the research data in a form of inferential and descriptive statistics. The data will be analysed by means of frequency and correlation tests with commentary on the results after each test performed.

## 4.2. Frequency analysis

### 4.2.1. Demographic data of respondents

It is worth noting that the statistical data received from respondents are not within the control of the researcher. Bearing this in mind it is imperative that we keep in mind that the demographical information received cannot be specific to one location.

*Table 4.2.1.1 Gender*

| Gender | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Female | 20 | 40.0 | 40.0 | 40.0 |
| | Male | 30 | 60.0 | 60.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

***Figure 4.2.1.1 Gender graph***

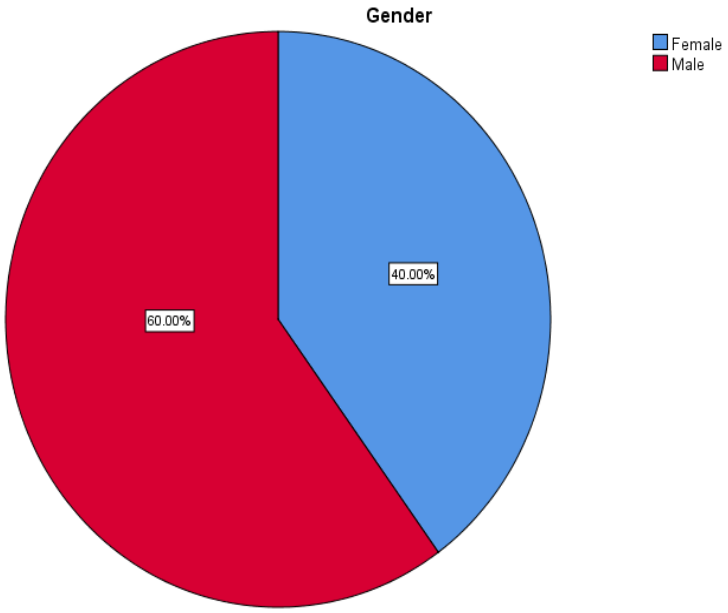
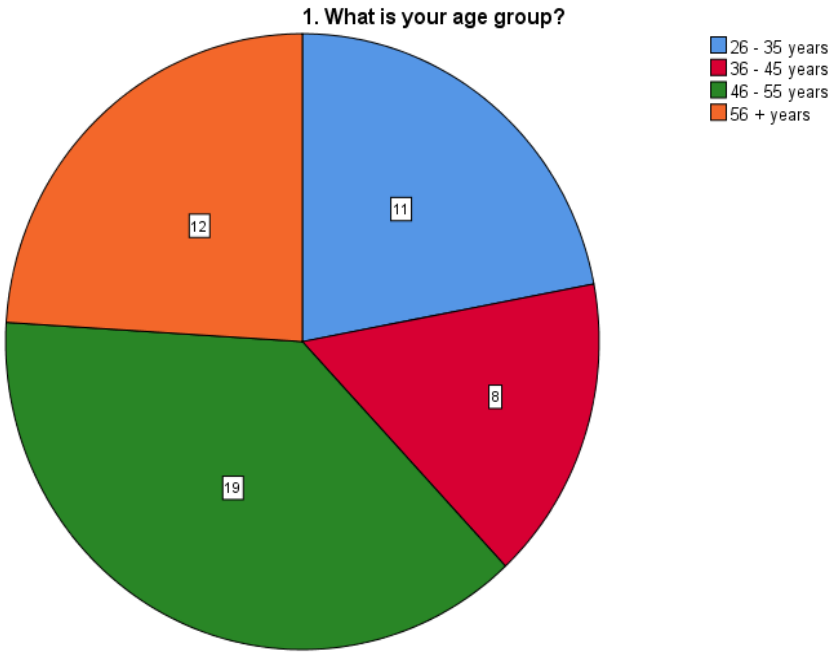


Figure 4.2.1.1 illustrates that sixty percent (60%) of the respondents were male and forty percent (40%) were female. Although the difference in percentage may appear to be large, the actual difference in the number of male and female respondents was ten (twenty (20) females and thirty-(30) males). This provides the researcher with a roughly even mix of male and females in order to analyse.

*Table 4.2.1.2. Age group*

| 1. What is your age group? | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 26 - 35 years | 11 | 22.0 | 22.0 | 22.0 |
| | 36 - 45 years | 8 | 16.0 | 16.0 | 38.0 |
| | 46 - 55 years | 19 | 38.0 | 38.0 | 76.0 |
| | 56 + years | 12 | 24.0 | 24.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

***Figure 4.2.1.2. Age Group***



Seventy six percent (76%) of the respondents were above the age of thirty-five (35) years. This gives the researcher some confidence to assume that the majority of the respondents will more experienced in financial advisory or would have gained some financial sector experience before moving into the financial planning sector.

*Table 4.2.1.3 Race Group*

| 2. Which race group do you belong to? | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Black African | 3 | 6.0 | 6.0 | 6.0 |
| | Indian | 10 | 20.0 | 20.0 | 26.0 |
| | Other | 1 | 2.0 | 2.0 | 28.0 |
| | White | 36 | 72.0 | 72.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

***Figure 4.2.1.3 Race Group***

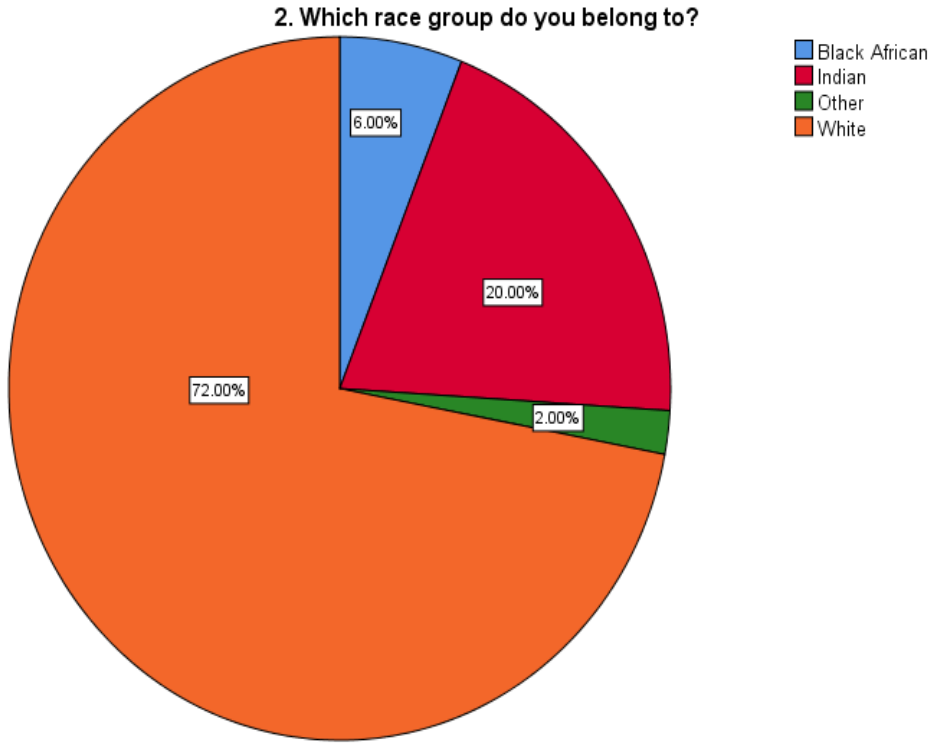



Figure 4.2.1.3 illustrates that seventy-two percent (72) of respondents were white, followed by twenty percent (20) being Indian, Six percent (6%) being Black African and two percent (2%) falling into the other category. There is no specific reasoning or answer as to why the majority of respondents belong to a specific race group, as the questionnaire was sent out to all financial planners in KwaZulu-Natal.

*Table 4.2.1.4. Respondents experience in financial planning*

| 3. How many years' experience do you have as a Financial Planner? | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 0 - 3 years | 4 | 8.0 | 8.0 | 8.0 |
| | 10 - 15 years | 6 | 12.0 | 12.0 | 20.0 |
| | 15 + years | 29 | 58.0 | 58.0 | 78.0 |
| | 3 -5 years | 5 | 10.0 | 10.0 | 88.0 |
| | 5- 8 years | 5 | 10.0 | 10.0 | 98.0 |
| | 8 - 10 years | 1 | 2.0 | 2.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

***Figure 4.2.1.4 Respondents experience in financial planning***

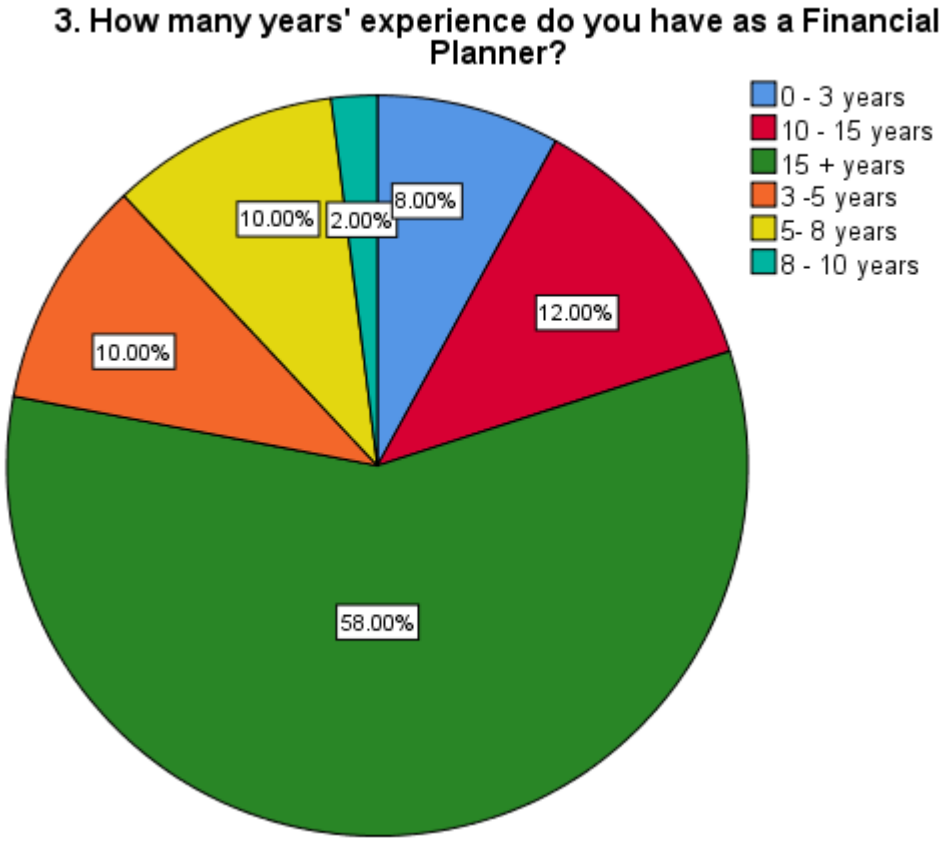
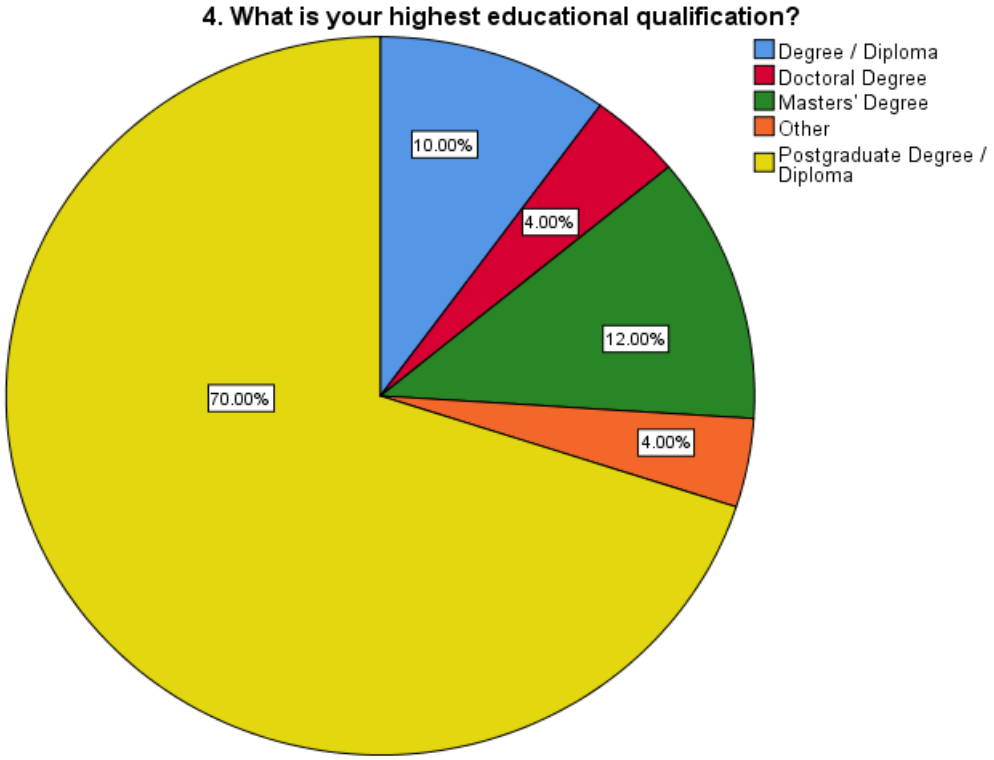


Figure 4.2.1.4 illustrates that fifty eight percent (58%) of respondents have over 15 years of experience. Ninety two percent of respondents have financial planning experience in excess of five years, which once again gives the researcher confidence in the reliability of their responses.

***Table 4.2.1.5. Respondent's educational qualifications***

| 4. What is your highest educational qualification? | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Degree / Diploma | 5 | 10.0 | 10.0 | 10.0 |
| | Doctoral Degree | 2 | 4.0 | 4.0 | 14.0 |
| | Masters' Degree | 6 | 12.0 | 12.0 | 26.0 |
| | Other | 2 | 4.0 | 4.0 | 30.0 |
| | Postgraduate Degree / Diploma | 35 | 70.0 | 70.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

***Figure 4.2.1.5 Respondent's educational qualifications***



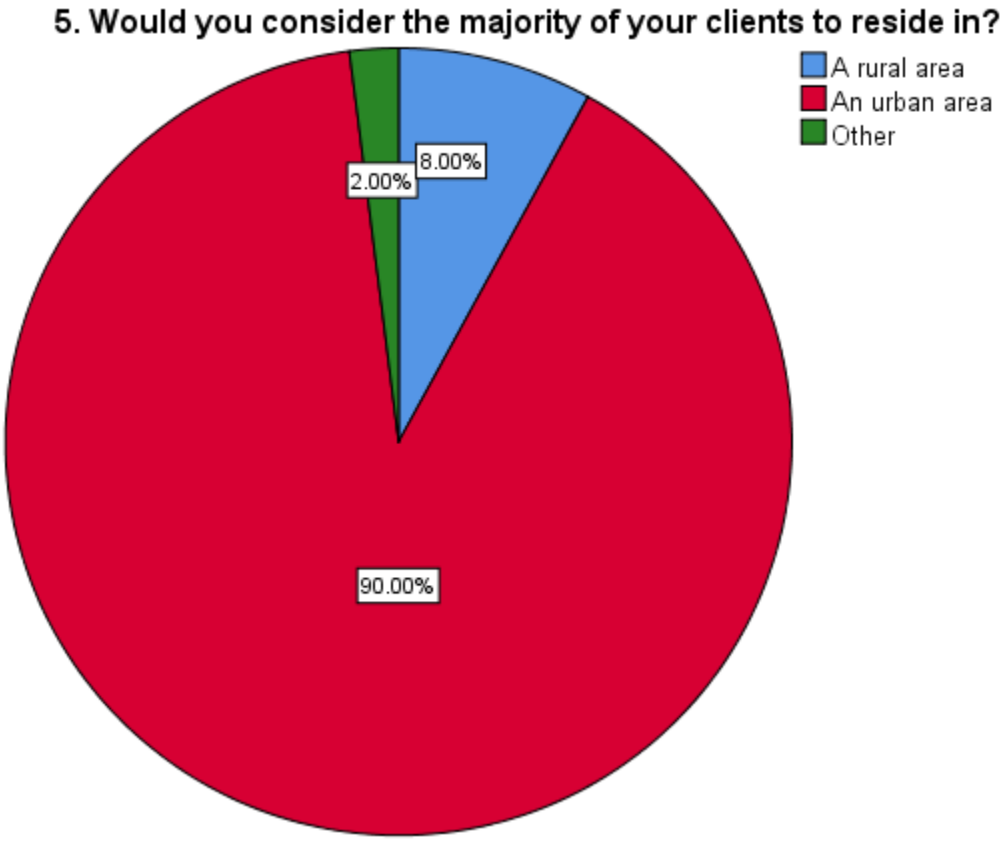
One hundred percent (100%) of the respondents have a tertiary qualification with seventy percent (70%) having a postgraduate degree/ diploma. The two respondents that make up the four percent (4%) of other are Chartered Accountants.

### 4.2.2. Research data of respondents – Financial Planning

*Table 4.2.2.1 Client's residence*

| 5. Would you consider the majority of your clients to reside in? | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | A rural area | 4 | 8.0 | 8.0 | 8.0 |
| | An urban area | 45 | 90.0 | 90.0 | 98.0 |
| | Other | 1 | 2.0 | 2.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

***Figure 4.2.2.1 Client's residence***




According to figure 4.2.2.1: Ninety percent (90%) of the respondents' clients reside in urban areas. With only eight percent (8%) residing in rural areas. This can be a potential concern with respect to people living in rural areas not being offered the availability for

services of a financial planner. A pre-conceived stereotype may imply that people living in rural areas are “poorer” and hence do not have adequate money for daily living let alone to save up for retirement. However, it must be noted that not all people living in rural areas are indeed poor. The classification of a rural area would generally be an area that is outside of the city hub, which could include farming and agricultural areas.

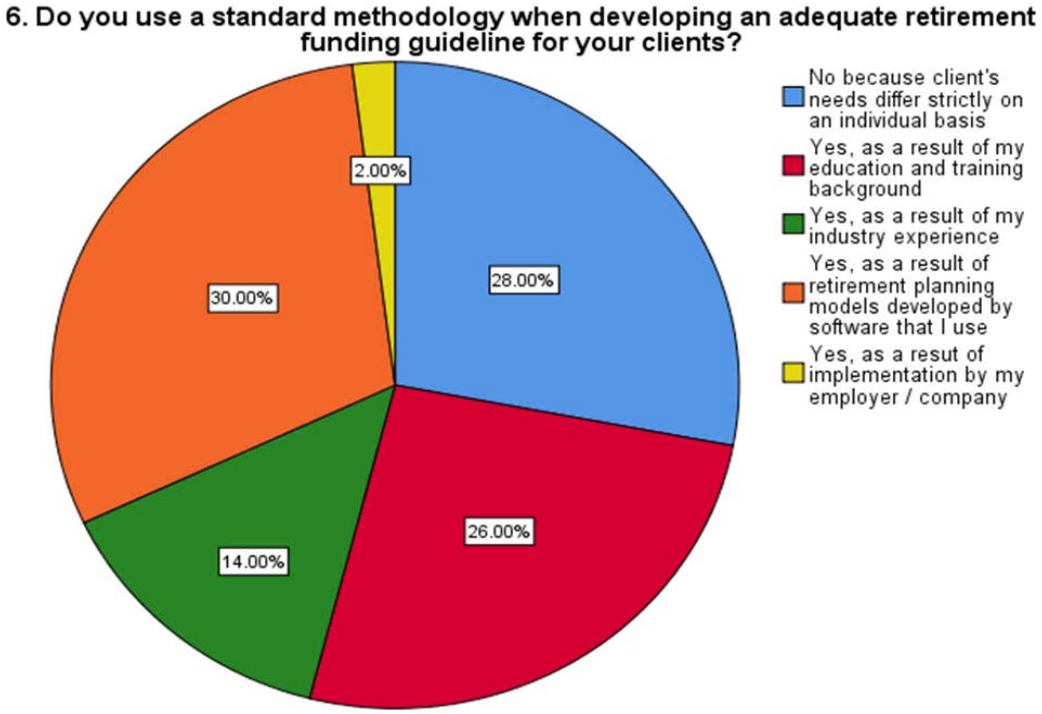
This re-iterates the point that not all people living in rural areas will automatically be unable to afford to contribute to retirement funding. This may be something that financial advisory firms, as well as the industry as a whole, need to look at. Not only is there a need to educate and empower people with the knowledge of retirement planning but this could be a lucrative untapped market for their business.

### 4.2.3. Research data of respondents – Financial Planning methodology

*Table 4.2.3. Financial Planners methodology*

| 6. Do you use a standard methodology when developing an adequate retirement funding guideline for your clients? | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | No because client's needs differ strictly on an individual basis | 14 | 28.0 | 28.0 | 28.0 |
| | Yes, as a result of my education and training background | 13 | 26.0 | 26.0 | 54.0 |
| | Yes, as a result of my industry experience | 7 | 14.0 | 14.0 | 68.0 |
| | Yes, as a result of retirement planning models developed by software that I use | 15 | 30.0 | 30.0 | 98.0 |
| | Yes, as a result of implementation by my employer / company | 1 | 2.0 | 2.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

***Figure 4.2.3. Financial Planners methodology***




The results obtained from this question were distributed amongst the options available. Thirty percent (30%) of respondents declare that they rely on the models developed by software packages that they use. Could this be case of just inputting all potential clients' details into the software and allowing it to generate a figure that need to be provided for in retirement? Alternatively, does twenty six percent (26%) of respondents rely solely on their education and training background and follow a textbook approach towards planning for a client's retirement?

Fourteen percent (14%) back their industry experience to formulate a retirement planning guideline whilst one correspondent uses a standard methodology implemented by their employer. This could suggest (without any accusation or prejudice) that this particular financial planner is less experienced in the financial planning sector and uses the employers' strategy and guidelines to sell a retirement product.

Twenty eight percent (28%) of the respondents have replied by stating what every potential retiree, or any other client that uses the services of a financial planner, would like to hear. This twenty eight percent (28%) believe that a standard methodology cannot be used because every clients' needs differ strictly on an individual basis. This would suggest that these financial planners' take into account various other factors into account such the client's capacity to save for retirement and spend and would ideally spend more time in planning an adequate retirement funding plan for the client's.

It is worth stressing again that the researcher bears no prejudice to any financial planner or respondent from the data collected but is merely attempting to identify any shortfalls within the financial planning industry, which in turn will benefit society as a whole.

### 4.2.4 Research data of respondents – Retirement Funding

*Table 4.2.4.1 Client's age*

| Client's age | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 4 | 8 | 16.0 | 16.0 | 16.0 |
| | 5 | 42 | 84.0 | 84.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

One hundred percent (100%) of respondents agreed that they would take into consideration the client's age when preparing a retirement funding plan. With eighty four percent (84%) strongly agreeing and sixteen percent (16%) agreeing. This comes as no surprise as retirement is an age dependent phenomenon. With the general retirement age in South Africa being 65 years for males and 60 years for females. This supports the literature in Chapter 2, which recognises that retirement financial planning should start at the earliest possible age. Therefore, the client's current age has a direct impact on the financial planning process for retirement, as a financial planner will be able to first calculate how many years the client has left until their retirement and be in a position to present different financial plans and scenarios to the client.

*Table 4.2.4.2 Client's expected retirement age*

| Client's expected retirement age | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 1 | 2.0 | 2.0 | 2.0 |
| | 4 | 5 | 10.0 | 10.0 | 12.0 |
| | 5 | 44 | 88.0 | 88.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety eight percent (98%) of respondents considered the clients expected retirement age when developing a retirement plan. One respondent, which accounts for an insignificant two percent of the sample population, was unsure about the client's expected retirement age.

As discussed in 4.3.1 above retirement is an age dependent phenomenon. With the general retirement age in South Africa being 65 years for males and 60 years for females. This supports the literature in Chapter 2, which recognises that retirement

financial planning should start at the earliest possible age. Therefore, the client's expected retirement age has a direct impact on the financial planning process for retirement, as a financial planner will be able to first calculate how many years the client has left until their retirement and be in a position to present different financial plans and scenarios to the client.

*Table 4.2.4.3 Aspirational retirement or forced retirement*

| Whether the client has an aspirational retirement age or a forced retirement due to employment policy | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 2 | 1 | 2.0 | 2.0 | 2.0 |
| | 3 | 4 | 8.0 | 8.0 | 10.0 |
| | 4 | 20 | 40.0 | 40.0 | 50.0 |
| | 5 | 25 | 50.0 | 50.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety percent (90%) of respondents would consider whether the client has an aspirational retirement age or a forced retirement due to employment policy. This would be an important question to ask the client before proceeding to continue with a retirement plan as a financial planner may assume the general retirement age in South Africa being 65 years for males and 60 years for females. However, certain employers may adopt policies of retirement at 60 years for either male and female employees, or 60 years for males and 55 years for females, as examples. It should not be taken for granted that the client will retire at the "general retirement age in South Africa".

*Table 4.2.4.4 Client's income needs on a monthly basis (Post tax)*

| The client's income needs on a monthly basis (Post tax) | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 1 | 1 | 2.0 | 2.0 | 2.0 |
| | 4 | 8 | 16.0 | 16.0 | 18.0 |
| | 5 | 41 | 82.0 | 82.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety eight percent (98%) of respondents would consider the client's monthly income needs (post tax or "take home" money). This is vitally important to financial planners to assess at the outset when creating a retirement financial plan, as the financial planner would need to identify whether the client can actually afford to contribute towards a retirement plan based on what current expenses are supplemented from their monthly income. Essentially a financial planner would prepare a financial needs analysis to find

out a client's affordability level as well as shortcomings with respect to a retirement financial plan.

***Table 4.2.4.5 Client's current retirement provisions***

| Current retirement provisions of the client | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 4 | 8 | 16.0 | 16.0 | 16.0 |
| | 5 | 42 | 84.0 | 84.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

One hundred percent (100%) of the respondents agreed that they would need to consider any current retirement provisions of the client. These could be in the form of the client's employers provident or pension fund or a retirement annuity taken out by client that is still in existence.

Current retirement provisions will have to be taken into account when preparing a retirement financial plan. A financial planner, after conducting a financial needs analysis, would consider the current retirement provisions of the client and advise as to whether there are any shortfalls in the expected retirement funds, any excess (which is rarely the case), or whether the client is indeed contributing enough towards their retirement at present.

***4.2.4.6 Lump sum requirements at retirement***

| Any lump sum requirement at retirement | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 4 | 12 | 24.0 | 24.0 | 24.0 |
| | 5 | 38 | 76.0 | 76.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

One hundred percent of the respondents agreed that they would consider a client's lump sums required at retirement age when preparing a retirement financial plan. This is especially important to those client's that may still be liable for a large portion of debt when it comes to the end of their working lives. A few examples of this are; if the retiree still has a home loan or bond outstanding once they retire, children's school or university fees that are still to be paid or vehicle finance that is still outstanding at retirement.

*Table 4.2.4.7 Client's retirement aspirations versus reality*

| The client's retirement aspirations versus reality | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 4 | 14 | 28.0 | 28.0 | 28.0 |
| | 5 | 36 | 72.0 | 72.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

One hundred percent of the respondents will consider their clients retirement aspirations versus reality. It is a financial planners' job to plan a financial strategy or plan for the client's as well as to advise clients on what is realistic or not on an individual case-by-case basis. For example, it is unlikely that someone who is earning minimum wage to expect to retire on an island based purely on a dream or aspiration. This is where a financial planner is required to advise client's on realistic financial goals, on an individual basis.

*Table 4.2.4.8 Client's specificity of financial goals*

| Specificity of financial goals | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 3 | 6.0 | 6.0 | 6.0 |
| | 4 | 19 | 38.0 | 38.0 | 44.0 |
| | 5 | 28 | 56.0 | 56.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety four percent of respondents would consider how a client would specify a financial goal. This should be a common goal between a financial planner and a client, as some retirees would require funding in retirement for specific purposes other than daily living costs. A specific financial goal of a client could be, as an example, to relocate to another city, province or another country in retirement and would require a specific financial goal to achieve this. It is thus important that financial planners know exactly what their clients require in retirement to be in a position to offer the best advice accordingly. It cannot be assumed that all retirees' needs are the same.

*Table 4.2.4.9 Funding others in retirement*

| Funding others in retirement (Such as dependents, children or other family members) | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 1 | 2 | 4.0 | 4.0 | 4.0 |
| | 3 | 5 | 10.0 | 10.0 | 14.0 |
| | 4 | 19 | 38.0 | 38.0 | 52.0 |
| | 5 | 24 | 48.0 | 48.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Eighty six percent (86%) of respondents will consider whether clients will be funding or financially supporting others' in retirement. As mentioned above, it cannot be assumed that all retirees' needs are the same as some may still be supporting their children at school or university as well as their spouses or other family members in retirement. Once again a financial planner would have to take into account these "extra costs" when preparing a retirement financial plan for a client.

*Table 4.2.4.10 Extent to which funding retirement funding is funded and consumed between spouses*

| Extent to which retirement funding is funded by and consumed between individual spouses | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 2 | 2 | 4.0 | 4.0 | 4.0 |
| | 3 | 11 | 22.0 | 22.0 | 26.0 |
| | 4 | 20 | 40.0 | 40.0 | 66.0 |
| | 5 | 17 | 34.0 | 34.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Seventy four percent of respondents will take into account their client's spouse when preparing a retirement financial plan. In retirement, spouses should be considered as one mutually dependent person. This should be a crucial consideration, which is emphasized, in the previous paragraph 4.2.4.9. If the client's spouse is also saving towards retirement then a financial planner should ideally be advising on how the couple should be saving for retirement concurrently. If only one spouse is saving toward retirement then this again needs to be taken into account when a preparing a retirement financial plan as you would expect the spouse that is contributing towards retirement to be contributing more toward a retirement plan for themselves as well as their spouses.

*Table 4.2.4.11 Potential income shortfalls*

| Potential income shortfalls in retirement | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 1 | 2.0 | 2.0 | 2.0 |
| | 4 | 10 | 20.0 | 20.0 | 22.0 |
| | 5 | 39 | 78.0 | 78.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety eight percent of respondents would consider potential income shortfalls, of their clients, in retirement. This should the primary purpose of a financial planner. i.e. to ensure that there is no income shortfall when a client retires.

Again, a financial needs analysis and taking into consideration all expected expenses in retirement a financial planner should be in a position to advise a client on how to avoid a potential income shortfall in retirement.

*Table 4.2.4.12 Continued savings in retirement*

| Continued saving in retirement | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 2 | 5 | 10.0 | 10.0 | 10.0 |
| | 3 | 9 | 18.0 | 18.0 | 28.0 |
| | 4 | 23 | 46.0 | 46.0 | 74.0 |
| | 5 | 13 | 26.0 | 26.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Seventy two percent of respondents will take into consideration their client's ability to continue saving in retirement.

To continue to save in retirement can be seen as a luxury as most often retirees' monies are used up to see them through their final years.

With this in mind it is somewhat difficult, but not impossible, to expect a person that is retired to continue to contribute toward a saving, unless they have managed to accumulate a more than adequate retirement fund.

However should a client wish to continue saving in retirement, the financial implications must be taken into account by a financial planner.

*Table 4.2.4.13 Diversification between and within investment types*

| Diversification between and within investment types | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 3 | 6.0 | 6.0 | 6.0 |
| | 4 | 14 | 28.0 | 28.0 | 34.0 |
| | 5 | 33 | 66.0 | 66.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Based on literature in Chapter 2, it was established that financial planners recommend that clients diversify their investment portfolios, be it retirement funds as well as other investment types. Ninety four percent (94%) of the respondents agree with this recommendation. Retirement funding need not necessarily only comprise of a retirement annuity and/ or a pension and provident fund.

Many more investment types can be used as retirement funding vehicles. A tax-free investment plan is a favored retirement funding vehicle used by financial planners. Other sources of retirement funding include call accounts, fixed deposits, endowments and unit trusts, to name a few. According to certified financial planner (Citadel Investment), Danie Venter, mixing up retirement savings portfolio's yield better returns and is a better option rather than focusing on one portfolio or investment type (Business Tech, 2018).

*Table 4.2.4.14 Asset allocations relative to life cycle and goals*

| Asset allocation appropriate for life cycle stage and goals | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 4 | 8.0 | 8.0 | 8.0 |
| | 4 | 11 | 22.0 | 22.0 | 30.0 |
| | 5 | 35 | 70.0 | 70.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Asset allocations are an important factor when preparing any financial plan as a client will generally want their assets to increase whilst decreasing their liabilities as they approach retirement. A typical example will be an individual's home (asset) which is financed by a liability (Home loan/ bond). It is the both the clients' and the financial planners responsibility to create these life cycle stage goals and regularly review whether these goals are being achieved.

Asset allocations and life cycle stage and goals will differ according to individual client needs. Ninety two percent (92%) of the respondents agree that a client's asset allocation appropriate for life cycle stage and goals needs to be considered when preparing a retirement financial plan. This is consistent with various literature that suggests that

investments should be diversified as well as that ideally all liabilities should be settled before retirement.

*Table 4.2.4.15 Extent and adequacy of savings and investments*

| Extent and adequacy of regular savings/ investing programs | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 2 | 4.0 | 4.0 | 4.0 |
| | 4 | 18 | 36.0 | 36.0 | 40.0 |
| | 5 | 30 | 60.0 | 60.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

The extent and adequacy of savings and investments are not only important for a financial planner to consider, when creating a financial needs analysis for a client, and advising whether the client needs to boost their retirement funding allocations or not. It also provides evidence to the financial planner on the ability and dedication of the client to commit to savings and investments.

Ninety six percent of the respondents agree that extent and adequacy of regular savings and investment programs needs to be considered when preparing a retirement financial plan.

*Table 4.2.4.16 Cash reserves and liquidity*

| Cash reserves and liquidity | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 1 | 2.0 | 2.0 | 2.0 |
| | 4 | 17 | 34.0 | 34.0 | 36.0 |
| | 5 | 32 | 64.0 | 64.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Cash reserves and the ability of the client to convert existing investments into cash (liquidity) are an important to take into consideration when preparing a retirement financial plan for two reasons. Firstly should the clients' current cash reserves and liquidity be more than sufficient as well as stable, then there is no need to financially burden the client with further unnecessary retirement funding products.

On the contrary, should the cash reserves and liquidity of the client be insufficient then a financial planner can advise the client on what is required to progress toward and achieve an adequate retirement financial target. Ninety eight percent (98%) of the respondents agree that this is an important factor to take into account when preparing an adequate retirement financial plan. This is also in agreement with the literature discussed in chapter 2.

*Table 4.2.4.17 Exposure and solvency*

| Exposure and solvency | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 9 | 18.0 | 18.0 | 18.0 |
| | 4 | 19 | 38.0 | 38.0 | 56.0 |
| | 5 | 22 | 44.0 | 44.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

A clients' exposure to risk from failing markets in which their retirement funds are invested are crucial when planning for retirement. This is the assumed the purpose of a financial planner in deciding in which markets to invest clients' retirement funds. Ideally, any investor including one that seeks a sufficient retirement fund, will would want the highest return possible with the least amount of risk. As the saying goes "the higher the risk the higher the return" holds true.

This proves more crucial after determining the clients' solvency (the amount by which the clients' assets exceeds their liabilities).

A typical scenario is that a person will make use of financial debt facilities when purchasing homes or vehicles and will spend the majority if not all of their working lives paying off these debts. So during these payback years it is advised to expose the client to lower risk investment portfolios, which would forego a higher return during that period and increase the risk investment portfolio as the individual approaches retirement age in order to obtain higher returns (normally within five to 10 years before retirement).

Eighty two percent (82%) of correspondents agree with this philosophy when developing a retirement funding plan. Eighteen percent (18%) were unsure of this philosophy and this may be a result of these financial planners adopting a conservative approach towards where clients' funds are invested regardless of the stage of where their clients are in their working life.

*Table 4.2.4.18 Debt safety level*

| Debt safety level | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 9 | 18.0 | 18.0 | 18.0 |
| | 4 | 25 | 50.0 | 50.0 | 68.0 |
| | 5 | 16 | 32.0 | 32.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

For the same reasons as discussed in 4.2.4.17 above, eighty two percent (82%) of respondents agree that a debt safety level must be considered when preparing a retirement funding plan.

*Table 4.2.4.19 Housing expenditure relative to income level*

| Housing expenditure relative to income level | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 2 | 1 | 2.0 | 2.0 | 2.0 |
| | 3 | 3 | 6.0 | 6.0 | 8.0 |
| | 4 | 18 | 36.0 | 36.0 | 44.0 |
| | 5 | 28 | 56.0 | 56.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

When developing any form of financial or investment plan, the primary concern should be client affordability. Housing expenditure makes up a large portion of what individuals consume from their income received.

It is therefore vitally important to consider the clients' housing expenditure relative to their income level, to determine firstly the client's affordability criteria and secondly to help identify and advise the client as to where they could cut back on certain unnecessary expenditure or costs, if applicable.

Ninety two percent (92%) of respondents take into consideration housing expenditure relative to income level when developing a retirement funding plan.

Should unnecessary costs or cost savings be identified; these could be used to boost or even start up retirement funding as retirement annuity for example. Even if these costs are not used for retirement purposes, it can contribute toward a personal saving for the individual thereby reduce the burden and pressure of added expenses.

*Table 4.2.4.20 Tax burden on retirees*

| Tax burden | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 3 | 6.0 | 6.0 | 6.0 |
| | 4 | 19 | 38.0 | 38.0 | 44.0 |
| | 5 | 28 | 56.0 | 56.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety four percent (94%) of respondents take into consideration the tax burden on retirees when developing a retirement funding plan for their clients. This corresponds to the literature in chapter 2 where different scenarios are presented along with the tax implications in each case. It is critically important that financial planners are thoroughly aware of tax implications when developing a retirement financial plan for their clients as a failure to do so can cost clients large sums of money when they reach retirement age.

In considering the tax implications, financial planners will also consider the diversification of retirement portfolios and how this could affect the tax burden on retirees both positively and negatively.

*Table 4.2.4.21 Inflation protection*

| Inflation protection | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 4 | 16 | 32.0 | 32.0 | 32.0 |
| | 5 | 34 | 68.0 | 68.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

One hundred percent (100%) of respondents agree that inflation protection is an important factor to take into consideration in retirement financial planning. This is in correlation to the literature discussed in chapter 2, where it was illustrated “that the best method to combat inflation would be to ensure that annual premium contribution increases’ are matched to at least the increase in inflation, in an effort to ensure that retirement goals are met safely (Business Tech, 2017).” This would assist in avoiding a shortfall or deficit come retirement age.

*Table 4.4.2.22 Frequency of review of client's portfolio*

| Frequency of financial review of client's portfolio | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 2 | 4.0 | 4.0 | 4.0 |
| | 4 | 7 | 14.0 | 14.0 | 18.0 |
| | 5 | 41 | 82.0 | 82.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety six percent (96%) of respondents agree that it is a pointless exercise to create a retirement funding plan and not review it ensure that the clients' requirements are going according to plan. It is a consensus that a clients' portfolio be reviewed on at least an annual basis, if not more regularly, in order to assess whether the portfolio is moving in the right direction.

It is worth mentioning that clients should insist that their financial planners on a regular basis review their portfolios, if there is no initiative taken by the financial planners themselves.

*Table 4.2.4.23 Client's progress toward goal attainment*

| Progress toward goal attainment | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 1 | 2.0 | 2.0 | 2.0 |
| | 4 | 14 | 28.0 | 28.0 | 30.0 |
| | 5 | 35 | 70.0 | 70.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety eight percent (98%) of respondents agree that they have to consider the clients' progress toward their goal attainment.

This is justified in the discussion in 4.2.4.22 above where it is agreed that a clients' portfolio review will enable a financial planner to determine the clients' progress towards their goals and requires consideration not only during the planning phase of a retirement funding plan but on a continuous basis over the duration of the plan.

Again, a client should insist that their financial planners on a regular basis review their portfolios, if there is no initiative taken by the financial planners themselves. This will give clients peace of mind in their investment portfolios as well as to determine any shortcomings.

*Table 4.2.4.24 Adequacy of life insurance coverage*

| Adequacy of life insurance coverage | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 4 | 8.0 | 8.0 | 8.0 |
| | 4 | 21 | 42.0 | 42.0 | 50.0 |
| | 5 | 25 | 50.0 | 50.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety two percent (92%) of respondents agree that adequacy of life insurance must be considered when planning a retirement fund of a client. This is especially important when an individual has dependents who rely on his/ her income solely to live their lives.

It is pointless to be saving for retirement, which is in an “uncertain” or “unguaranteed” future, when your family or dependents will be unable to survive should the individual suddenly pass away. It is just as important to plan for retirement, as it is to make sure that those you leave behind are not burdened with liabilities and expenses of your estate.

Therefore, it is a responsible choice to ensure that you have adequate life insurance cover to support your loved ones after your demise.

*Table 4.2.4.25 Adequacy of medical insurance coverage*

| Adequacy of medical insurance coverage | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 1 | 1 | 2.0 | 2.0 | 2.0 |
| | 2 | 1 | 2.0 | 2.0 | 4.0 |
| | 3 | 1 | 2.0 | 2.0 | 6.0 |
| | 4 | 14 | 28.0 | 28.0 | 34.0 |
| | 5 | 33 | 66.0 | 66.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

As with life insurance coverage, it is also important to consider whether an individual has adequate medical cover. With the lack of faith in public hospitals and medical facilities, medical aid or medical insurance is necessary for South Africans wishing to receive proper medical care during both their working years as well as into retirement.

Again, it would appear to be irresponsible to save toward an “uncertain” or “unguaranteed” future event, that is retirement, without ensuring that you have proper medical aid/ insurance cover should the need arise.

Ninety two percent of the respondents agree with the rational discussed above and take into consideration the adequacy of medical insurance when preparing a retirement financial plan.

*Table 4.2.4.26 Adequacy of disability insurance coverage*

| Adequacy of disability insurance coverage | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 2 | 5 | 10.0 | 10.0 | 10.0 |
| | 3 | 10 | 20.0 | 20.0 | 30.0 |
| | 4 | 13 | 26.0 | 26.0 | 56.0 |
| | 5 | 22 | 44.0 | 44.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Disability insurance like any other insurance is required for an unforeseen event and, like other insurances; an individual will wish they would never have to use it. Seventy percent (70%) of the respondents agree that the adequacy of disability insurance coverage must be taken into consideration in retirement financial planning.

It is considered responsible to be insured for an unforeseen event that renders a person disabled, especially in circumstances where the said individual has dependents and others that rely upon his or her income.

*Table 4.2.4.27 Adequacy of property insurance coverage*

| Adequacy of property insurance coverage | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 1 | 1 | 2.0 | 2.0 | 2.0 |
| | 2 | 5 | 10.0 | 10.0 | 12.0 |
| | 3 | 15 | 30.0 | 30.0 | 42.0 |
| | 4 | 17 | 34.0 | 34.0 | 76.0 |
| | 5 | 12 | 24.0 | 24.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

As mentioned in 4.2.4.26 above. Insurance is required for an unforeseen event and an individual will wish they would never have to use it.

It is therefore vitally important to protect your assets such as your home and its contents in an unfortunate event such as theft or natural disasters.

Fifty eight percent (58%) of respondents agreed that this be taken into consideration when preparing a retirement financial plan. The response is surprisingly lower than expected by the researcher, however a majority of greater than 50% do take this into consideration when developing retirement financial planning.

*Table 4.2.4.28 Protection from liability exposure*

| Protection from liability exposure | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 2 | 1 | 2.0 | 2.0 | 2.0 |
| | 3 | 18 | 36.0 | 36.0 | 38.0 |
| | 4 | 15 | 30.0 | 30.0 | 68.0 |
| | 5 | 16 | 32.0 | 32.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Typical examples of protection from liability exposure would be an income and salary plan offered by several financial service providers. An income and salary protection plan, typically provides certainty of income to an individual should they be unable to work either permanently or temporarily. Possible circumstances where such plans are beneficial would be in the event of retrenchment, severe illness, injury and disability.

An income protector benefit ensures a steady, tax-free monthly income to meet financial obligations or liabilities such as home loans, vehicle finance liabilities as well as general expenses thereby protecting an individual from liability exposure.

A majority of sixty eighty-two (62%) of respondents believe that protection from liability exposure needs to be considered when preparing a retirement financial plan.

*Table 4.2.4.29 Adequacy of long-term care coverage*

| Adequacy of long-term care coverage | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 5 | 10.0 | 10.0 | 10.0 |
| | 4 | 24 | 48.0 | 48.0 | 58.0 |
| | 5 | 21 | 42.0 | 42.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Adequacy of long-term care coverage will differ on an individual case-by-case basis. This is because individuals' circumstances and personal arrangements will determine how they choose to live through their retirement years.

Some individuals may choose to live with their children; some may choose to enter nursing and retirement homes, whilst some may choose to live out the rest of their lives independently on their own.

The extent of long-term care coverage will obviously differ based on the options chosen by the individual. Ninety percent (90%) of the respondents agree that they will consider long-term care coverage when performing a retirement financial plan.

*Table 4.2.4.30 Adequacy of retirement planning given life cycle stage and goals*

| Adequacy of retirement planning given life cycle stage and goals | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 1 | 2.0 | 2.0 | 2.0 |
| | 4 | 14 | 28.0 | 28.0 | 30.0 |
| | 5 | 35 | 70.0 | 70.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

Ninety-eight (98%) percent of respondents agree that the adequacy of retirement planning given life cycle stage and goals must be considered when developing a retirement financial plan. This compliments the prior responses to previous questions such as clients age, clients retirement age, forced versus aspirational retirement, clients' progress toward goal attainment and frequency of review of clients' portfolio.

*Table 4.2.4.31 Adequacy of estate planning*

| Adequacy of estate planning | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 3 | 1 | 2.0 | 2.0 | 2.0 |
| | 4 | 12 | 24.0 | 24.0 | 26.0 |
| | 5 | 37 | 74.0 | 74.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

As discussed above in the analysis of adequate life insurance coverage, it will be irresponsible for an individual to contribute towards an "uncertain" or "unguaranteed" event such as retirement without taking into account the possibility of an unforeseen death and placing a burden on his loved ones or dependents in the form of debt and general expenses. Ninety-eight percent of respondents agree with this philosophy of thinking and would considers the adequacy of estate planning when preparing a clients' retirement financial plan.

## 4.3. Correlation analysis

The Pearson Chi-Square analysis was used to determine whether any correlation existed between the respondents' demographic details and their responses to the considerations taken when preparing a retirement financial plan. A test of independence was used to assess if unpaired observations on respondents demographic details are independent of their considerations when developing a retirement financial plan.

**Null hypothesis**: There is no relationship between respondents' demographic details and their considerations when developing a retirement financial plan for a client. Alternatively, financial planners' demographic details and educational background does not influence their considerations and guidelines when developing a retirement financial plan for a client.

**Alternative Hypothesis**: There is a relationship between respondents' demographic details and their considerations when developing a retirement financial plan for a client.

### 4.3.1. Correlation between respondents' demographics and retirement financial planning considerations

The assumption in the test of independence, is that a chi-squared probability (also referred to as the "p" value or significance value) of less than or equal to 0.05 (5%) is interpreted as justification for rejecting the null hypothesis. i.e. the row variable is dependent of the column variable. If the significance value is greater than the Alpha value, we will accept the null hypothesis. We refer to the 0.05 (5%) as our Alpha value.

*Table 4.3.1.1 Respondents age group*

| Pearson Chi-Square Tests | | |
|---|---|---|
| | | Age group |
| Demographics | Chi-square | 104.679 |
| | Df | 93 |
| | Sig. | .192[a] |
| Results are based on nonempty rows and columns in each innermost subtable. | | |
| a. More than 20% of cells in this subtable have expected cell counts less than 5. Chi-square results may be invalid. | | |

The results of the "p" value or significance value is 0.192 or 19.2%. This is significantly larger than our Alpha value of 5% and we therefore accept our null hypothesis that the age group of the respondents has no relationship with the considerations taken when preparing a retirement financial plan.

*Table 4.3.1.2 Respondents gender*

| Pearson Chi-Square Tests | | |
|---|---|---|
| | | Gender |
| Demographics | Chi-square | 28.932 |
| | Df | 31 |
| | Sig. | 0.573 |
| Results are based on nonempty rows and columns in each innermost subtable. | | |

The results of the “p” value or significance value is 0.573 or 57.3%. This is significantly larger than our Alpha value of 5% and we therefore accept our null hypothesis that the gender of respondents has no relationship with the considerations taken when preparing a retirement financial plan.

*Table 4.3.1.3 Respondents Race*

| Pearson Chi-Square Tests | | |
|---|---|---|
| | | Race |
| Demographics | Chi-square | 131.805 |
| | Df | 93 |
| | Sig. | .005*,b,c |
| Results are based on nonempty rows and columns in each innermost subtable. | | |
| *. The Chi-square statistic is significant at the .05 level. | | |
| b. More than 20% of cells in this subtable have expected cell counts less than 5. Chi-square results may be invalid. | | |
| c. The minimum expected cell count in this subtable is less than one. Chi-square results may be invalid. | | |

The results of the “p” value or significance value is 0.005 or 0.5%. This is significantly lower than our Alpha value of 5%. However, per the table above – Notes b and c: more than 20% of cells in the subtable have expected cell counts more than 5 and therefore the Chi-Square results may be invalid or the Chi-Square assumption has been violated. We therefore accept our null hypothesis that the race of the respondents has no relationship with the considerations taken when preparing a retirement financial plan.

*Table 4.3.1.4 Respondents Experience*

| Pearson Chi-Square Tests | | |
|---|---|---|
| | | Years of experience as a Financial Planner |
| Demographics | Chi-square | 188.387 |
| | Df | 155 |
| | Sig. | .035*,b,c |
| Results are based on nonempty rows and columns in each innermost subtable. | | |
| *. The Chi-square statistic is significant at the .05 level. | | |
| b. More than 20% of cells in this subtable have expected cell counts less than 5. Chi-square results may be invalid. | | |
| c. The minimum expected cell count in this subtable is less than one. Chi-square results may be invalid. | | |

The results of the "p" value or significance value is 0.035 or 3.5%. This is lower than our Alpha value of 5%. However, per the table above – Notes b and c: more than 20% of cells in the subtable have expected cell counts more than 5 and therefore the Chi-Square results may be invalid or the Chi-Square assumption has been violated. We therefore accept our null hypothesis that respondent' years of experience as a financial planner has no relationship with the considerations taken when preparing a retirement financial plan.

*Table 4.3.1.5 Respondents Education*

| Pearson Chi-Square Tests | | |
|---|---|---|
| | | Highest educational qualification |
| Demographics | Chi-square | 206.744 |
| | Df | 124 |
| | Sig. | .000*,b,c |
| Results are based on nonempty rows and columns in each innermost subtable. | | |
| *. The Chi-square statistic is significant at the .05 level. | | |
| b. More than 20% of cells in this subtable have expected cell counts less than 5. Chi-square results may be invalid. | | |
| c. The minimum expected cell count in this subtable is less than one. Chi-square results may be invalid. | | |

The results of the “p” value or significance value is 0.000 or 0%. This is lower than our Alpha value of 5%. However, per the table above – Notes b and c: more than 20% of cells in the subtable have expected cell counts more than 5 and therefore the Chi-Square results may be invalid or the Chi-Square assumption has been violated. We therefore accept our null hypothesis that respondent education has no relationship with the considerations taken when preparing a retirement financial plan.

***Table 4.3.1.6. Clients' area of residence***

| **Pearson Chi-Square Tests** | | |
|---|---|---|
| | | Clients' place of residence |
| Demographics | Chi-square | 65.875 |
| | df | 62 |
| | Sig. | .344[a,b] |
| Results are based on nonempty rows and columns in each innermost subtable. | | |
| a. More than 20% of cells in this subtable have expected cell counts less than 5. Chi-square results may be invalid. | | |
| b. The minimum expected cell count in this subtable is less than one. Chi-square results may be invalid. | | |

The results of the “p” value or significance value is 0.344 or 34.4%. This is significantly larger than our Alpha value of 5% and we therefore accept our null hypothesis that the clients’ area of residence has no relationship with the considerations taken when preparing a retirement financial plan.

## 4.4. Conclusion:

This chapter presented the research data in a form of inferential and descriptive statistics. The data received from respondents has been analysed by means of frequency and correlation tests. Frequency tests were based on the respondent demographics, financial planning methodology and their financial planning considerations. Correlation tests were performed to determine whether any relationships existed between respondent demographics and retirement financial planning considerations. Every test and analysis provided commentary on the result of each test performed and conclusions were reached based on the respective outcome of each test. The researcher will now conclude on his findings in accordance to each objective of the study in the following chapter.

# CHAPTER FIVE

# CONLUSION, LIMITATIONS AND RECOMMENDATIONS

## 5.1. Introduction

In the previous chapter, data received from respondents were analysed by means of frequency and correlation tests. This chapter will now conclude on the research findings and analysis in accordance to each objective of the study. Limitations and recommendations will also be discussed.

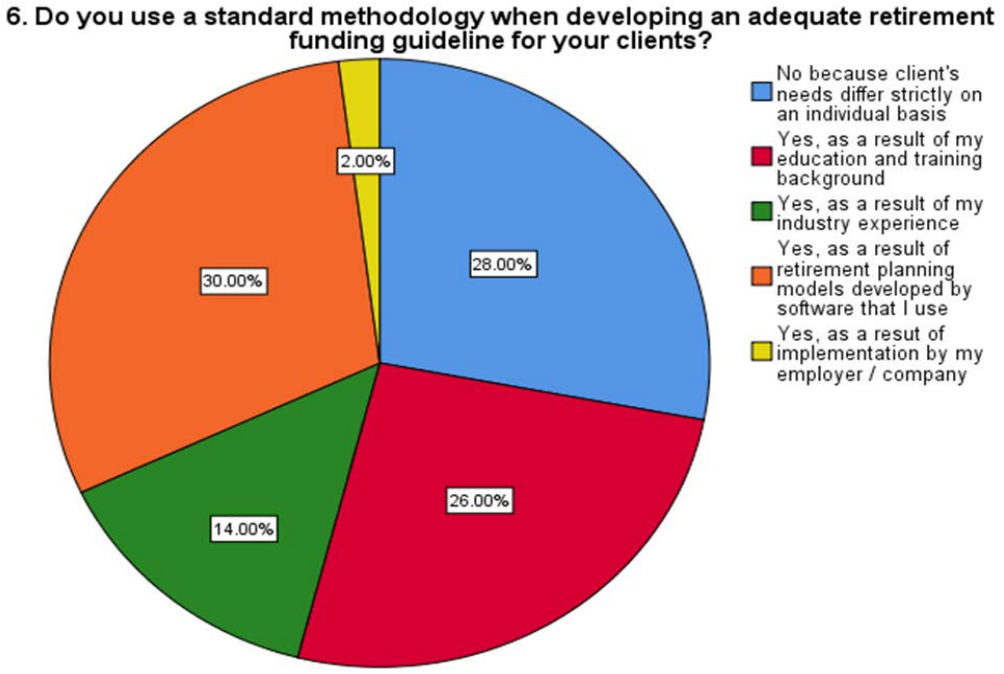
## 5.2. Conclusion by objectives

### 5.2.1. Objective one of study: To ascertain retirement planning considerations and guidelines from financial planners.

The questionnaire sent out to financial planners was developed by taking into account the considerations and views of financial planners and economists based on the literature reviewed in Chapter 2. The questionnaire then asked respondents to agree or disagree with considerations that financial planners take into account when developing a retirement financial plan.

Based on the results of the Cronbach's Alpha test, in the pretesting and validation section in Chapter 3, it is evident that financial planners' do take into account, the considerations and guidelines presented in the questionnaire. The Cronbach Alpha test revealed a combined 88.3% correlation or agreement between financial planners (respondents).

***Figure 4.2.3. Financial Planners methodology***



Data from the respondents with regard to a standard methodology used when developing a retirement financial plan does not indicate that there is a standard rule when developing a retirement financial plan as the responses sporadically distributed.

- Thirty percent (30%) stating that, they use a standard methodology because of the retirement planning models developed by the software they use.
- Twenty eight percent (28%) stated that do not use any standard methodology as clients' needs differ on an individual basis.
- Twenty six percent (26%) stated that they do use a standard methodology because of their education and training background.
- Fourteen percent (14%) use a standard methodology based on their industry experience, and
- Two percent (2%) use a standard methodology implemented by their employer or firm.

These results reveal that although financial planners do agree on the guidelines and considerations required when developing a retirement financial plan, their approaches in developing such a plan are different.

**Conclusion:**

Financial planners in KwaZulu-Natal use financial planning considerations and guidelines sent out in the questionnaire. This is consistent with the literature reviewed in Chapter 2.

### 5.2.2. Objective two of study: To determine if a consensus exists, amongst financial planners, regarding retirement planning considerations and guidelines.

Based on the results of the Cronbach's Alpha test, in the pretesting and validation section in Chapter 3, it is evident that financial planners' do take into account, the considerations and guidelines presented in the questionnaire. The Cronbach Alpha test revealed a combined 88.3% correlation or agreement between financial planners (respondents).

**Conclusion:**

This analysis as well as the frequency tests conducted in Chapter 4, indicates that there is indeed a consensus among financial planners, regarding retirement planning considerations and guidelines.

Based on the conclusion reached in objective one above, it must be noted that although a consensus does exist amongst financial planners regarding retirement planning and considerations and guidelines, there is no general rule of thumb in their approach when developing the plan.

### 5.2.3 Objective three of study: To determine what differences of opinions might exist between educational and demographic subgroups of financial planners.

Based on the correlation analysis conducted in Chapter 4, it is clear that there is no correlation or relationship that exists between the educational and demographic subgroups of financial planners' and their responses toward the considerations taken into account when developing a retirement financial plan.

Every demographic detail of the respondents were tested against the considerations and guidelines section of retirement financial planning and each test either failed the Pearson Chi-Square test or the correlation (p value) was clearly insignificant.

**Conclusion:**

We will therefore accept the null Hypothesis posed in Chapter 4. The null hypothesis is that there is no relationship between respondents' demographic details and their considerations when developing a retirement financial plan for a client.

Therefore, no differences of opinion exist as a result of educational and demographic subgroups of financial planners.

## 5.3. Limitations of the study and recommendations for future research

The main limitation of the study was the poor respondent rate. Only fifty financial planners out of a possible 704 in KwaZulu-Natal responded to the questionnaire.

The result of the poor response rate meant the tests of significance performed to answer the objectives of this paper could not be used as a sample to extrapolate to all financial planners in South Africa, let alone to all those in KwaZulu-Natal.

This paper can however be used as a building block for further research in the area of adequate retirement financial planning in South Africa.

A recommendation for anyone who wishes to further this research, within the province of Kwa-Zulu Natal and to other provinces in the country, is to use a physical or manual 9in the form of hard copies) confrontation approach rather than rely on an e-mail response approach when seeking responses to questionnaires. Obviously, this will be done with the approval of the controlling body (Financial

Planning Institute of Southern Africa). A possible place where a researcher should attempt to target, when requesting questionnaires to be completed, are events hosted by the Financial Planning Institute of Southern Africa.

Further recommendations based on the study's findings relating to the problem statement and objectives would be that individuals take the initiative to familiarise themselves with the general guidelines and considerations used by financial planners in planning a retirement financial plan. This would allow the future retiree or client the opportunity to be prepared, by being in the "know how", when using the services of a financial planner. The client will also be in a position to question and query their financial planner should they feel their retirement plan deviate from these general guidelines.

Another avenue that is open for future research is to approach the study from a retiree's point of view to determine whether these retirement planning guidelines do indeed bear the fruit of adequate retirement funding. The retirees can be questioned as to whether they made use of these retirement planning guidelines (and or financial planners) before retirement and whether they feel adequately funded now during retirement.

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UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

06 October 2017

**Mr Shagaran Rathnasamy (202513410)**
**School of Accounting, Economics & Finance**
**Pietermaritzburg Campus**

Dear Mr Rathnasamy,

**Protocol reference number: HSS/1622/017M**
**Project title:** Exploring adequate retirement funding in South Africa: A KwaZulu-Natal financial planner's view

**Approval Notification – Expedited Approval**

In response to your application received on 12 September 2017, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

**Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.**

**PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.**

**The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.**

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

.....

pp **Dr Shenuka Singh (Chair)**

**/ms**

Cc Supervisor: Jugjith Deodutt
Cc Academic Leader Research: Dr Colette Muller
Cc School Administrator: Ms Jerusha Singh