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Many options available

Presenting retirement fund members with regular statements that set out the value of their fund credits, such as bank account statements, can actually promote incorrect thinking and have the unintended consequence of fostering undesirable behaviour by members.

Colourfield Liability Solutions executive director Shaun Levitan says the current investment practice in SA, consistent with legislative requirements, is to provide members of defined contribution retirement funds with the value of their fund credit, or account balance, on a regular basis.

"This information is clearly important but, on its own, it is not meaningful. In fact, providing this information in isolation might actually be dangerous," Levitan says.

He cites the example of a retirement fund member who receives a statement showing an accumulated fund balance of R1m.

"Imagine that for some years, this member has believed that R1m is the target for which she should be aiming. She therefore, on receipt of this latest statement, believes that she is on track for a great retirement.

"However, the reality is that knowing her account balance in isolation provides the member with no insight into her likely standard of living in retirement.

"Instead she may have a false sense of comfort over her retirement finances by imagining that if she leaves her job it is acceptable to access some of her fund credit in cash, because she believes she already has more than is ultimately required."

He says it would be more useful for the member to receive a statement from her retirement fund that reveals the following:

- The monthly income they would receive if they used their fund credit right now to buy a monthly annuity;
- The amount that such a monthly annuity would increase due to the member's projected future contributions towards their retirement savings; and
- The final projected monthly annuity at retirement (in real terms), which would be expected to increase annually with inflation.

"These calculations are technical but can easily be done in a transparent manner. Providing this information to an individual changes the statement from referring to a 'pot of money' to that of a stream of income at retirement," says Levitan.

"It recognises that retirement income — rather than a projected amount of capital — is actually the goal, because the role of a retirement fund is to maintain our standard of living in retirement."

Momentum Investments & Savings head of product development Mickey Gambale says when people are saving for retirement they should use the savings vehicles government has provided.

"Pension funds and retirement annuities (RAs) give you tax deductions and tax-free growth. The benefit of compounding on the tax-free growth is enormous over time," Gambale says.

"Top up your pension fund and/or use an RA to ensure you make full use of your tax-free allowance each year. In addition, the new tax-free savings accounts give you tax-free growth and no tax payable when you begin to draw down upon those savings."

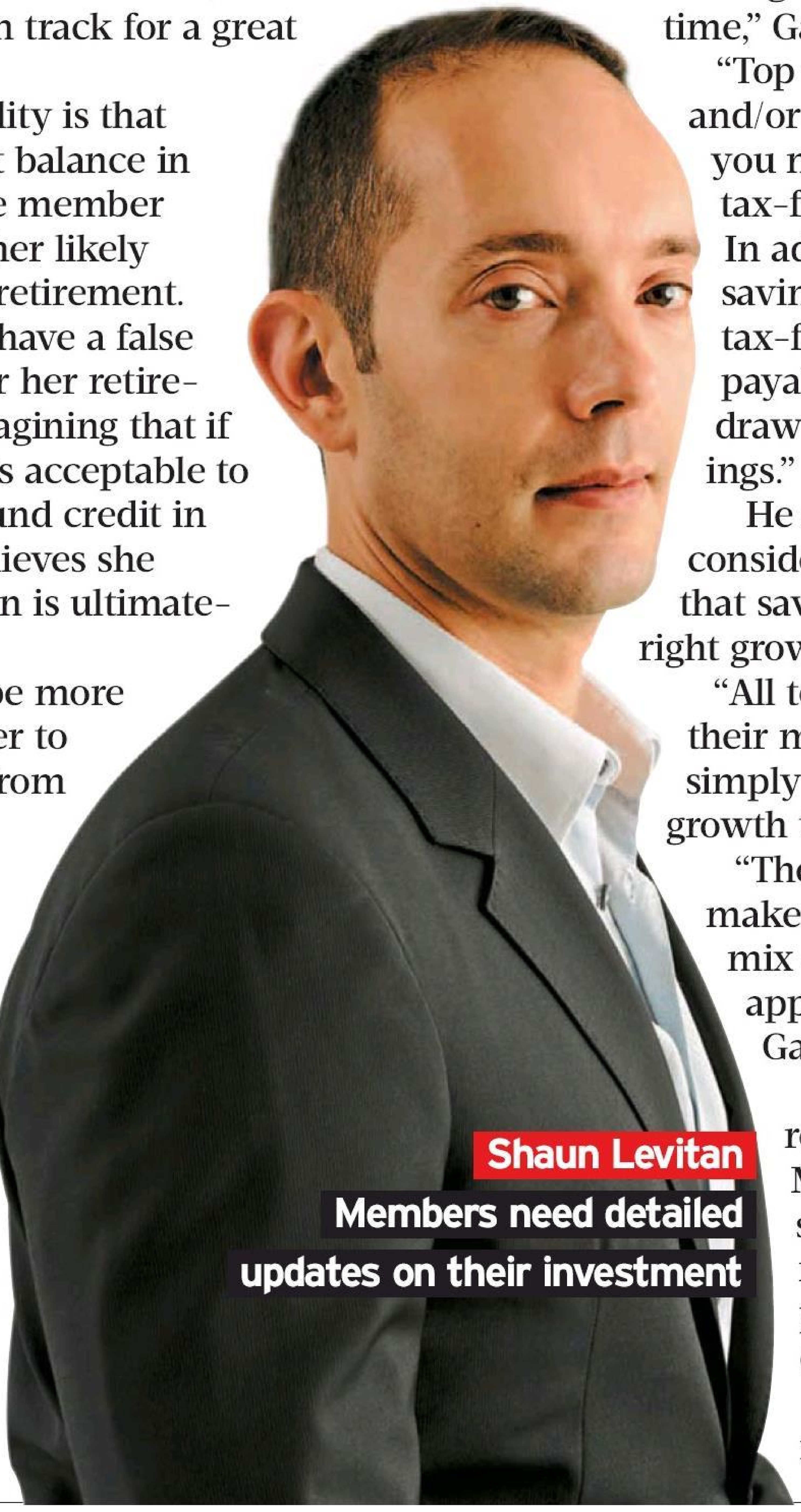
He says another important consideration is making sure that savers get exposure to the right growth assets.

"All too many people put their money into assets that simply do not produce the growth they need.

"Therefore, people should make sure they have a good mix of growth assets and appropriate diversification," Gambale says.

Liberty head of pre-retirement investments Mark Davids says people saving for retirement need to consider the prevailing environment of returns.

"The expected returns for traditional



Shaun Levitan
Members need detailed updates on their investment