

3. Contributions

3.1 Total contributions as a percentage of salaries

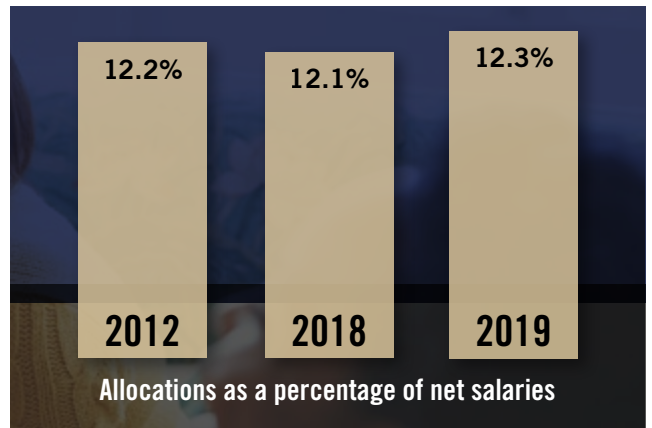
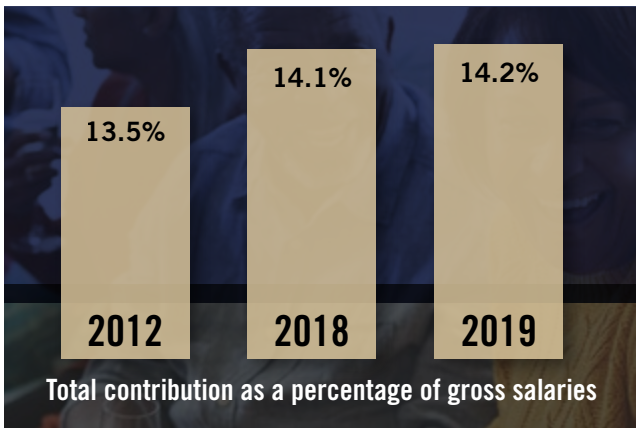
The graph shows the average total contribution (as a percentage of salaries) in 2012, 2018 and 2019.

The total average contribution paid into the fund from members and employers increased from 13.5% in 2012 to 14.2% in 2019. This may be as a result of members being more aware of the importance of retirement savings.

Since March 2016 up to 27.5% of the member’s income could have been contributed to pension, provident and retirement

annuity funds (capped at R350 000 a year) with before-tax money, which supports placing additional money into the fund.

Auto-escalation of contributions over time could be a way to increase contribution rates without affecting employees’ take-home pay. An increase of 0.25% each year since 2012 at salary increase time would have led to a 1.75% of salary contribution rate increase by 2019. This would have led to an almost 10% improvement in expected retirement benefits for younger members.

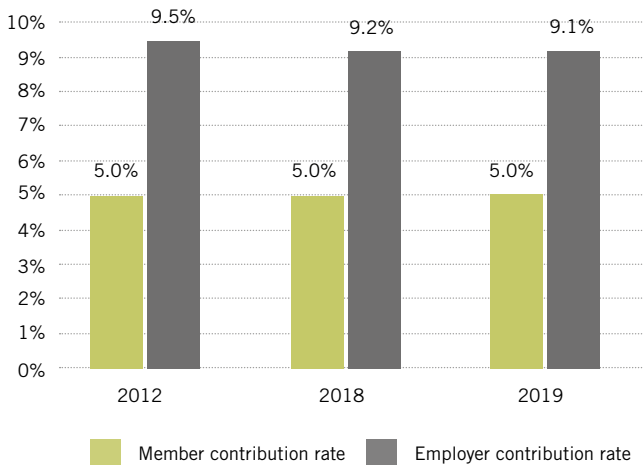


3.2 Member and employer contributions

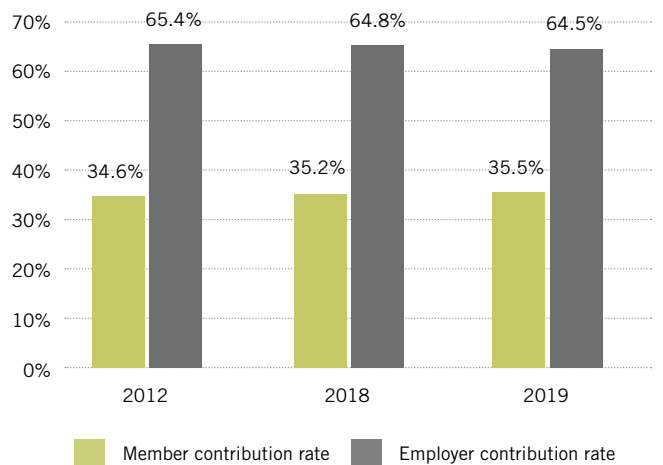
The graph reveals the trends in average member and employer contributions in 2012, 2018 and 2019.

The relative contribution between members and employers is almost the same as in the previous analysis. Members now contribute 0.15% of salary more than they did in the 2012 analysis, which may be because members are becoming more educated about the importance of retirement savings.

Member contribution and employer contribution



Proportion of member contribution and employer contribution



3.3 Allocation of contributions by sector

The total average contribution has increased in the last year. In the previous analysis, the professional business services had the lowest total average contribution of 11.5%, which has now decreased to 11.2%. The public services sector had the highest total average contribution of 23.03% in 2018 and 23.00% in 2019.

The total average contributions as a percentage of salary for each sector in 2015, 2018 and 2019 are:

> Sectors

	Total average contribution 2015	Total average contribution 2018	Total average contribution 2019
Construction	13.7%	14.5%	14.7%
Energy	13.9%	13.5%	14.1%
Fishing, forestry and agriculture	16.5%	15.9%	15.2%
Manufacturing	14.2%	14.6%	14.5%
Mining	15.4%	15.0%	14.8%
Personal services	14.0%	13.8%	14.0%
Professional and business services	11.2%	11.5%	11.2%
Public services	21.7%	23.0%	23.0%
Retail, wholesale and hospitality	14.7%	14.5%	14.2%
Transport and telecommunication	14.5%	14.5%	14.7%
Unclassified	–	14.7%	15.0%



3.4 Contributions – standalone and umbrella funds

The table reflects the average contribution in standalone and umbrella funds in 2018 and 2019. The average employer and member contribution is higher in standalone funds than in umbrella funds.

Standalone funds average contributions vs umbrella funds average contributions

	Total average contribution 2018		Total average contribution 2019	
	Average employer contribution rate	Average member contribution rate	Average employer contribution rate	Average member contribution rate
Standalone	9.3%	5.5%	9.2%	5.5%
Umbrella	9.0%	4.3%	9.0%	4.5%

3.5 Expected replacement ratio depending on contribution rate

The expected replacement ratio at retirement is shown below for a new member joining the fund at various ages, based on a contribution rate towards retirement savings of 9%, 11%, 13%, 15% and 17%. This projection relies on the assumptions set out in section 11.

Many funds and employers target a replacement ratio of 75%. The graphs on the next page show that a new member aged 20, contributing 17% of their pensionable salary towards retirement savings and planning to retire at the age of 60, will not be able to reach this target. The member will have a projected replacement ratio of 65%.

The second graph shows that a new member aged 20, contributing 17% of pensionable salary towards retirement savings and planning to retire at the age of 65 is on track to reach a replacement ratio of around 90%.

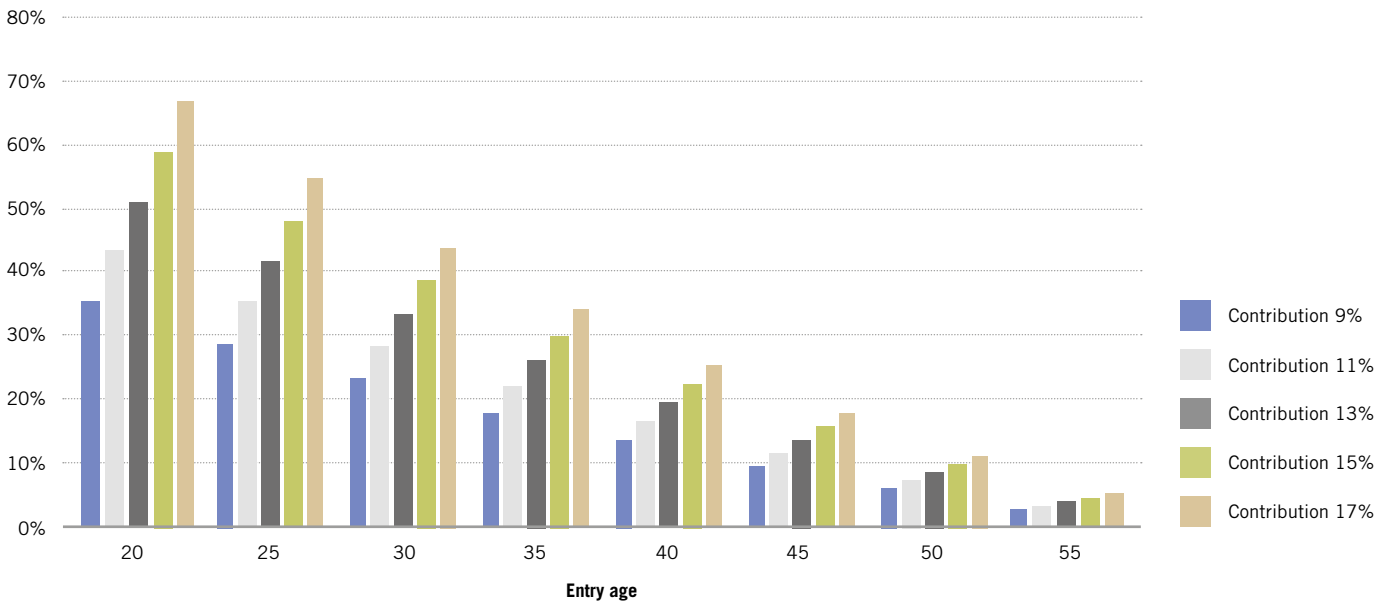
A new member aged 25 who plans to retire at age 65 (remaining with the same employer during that time or preserving their retirement savings in full when changing jobs) will need to contribute 17% of pensionable salary towards retirement savings to achieve a replacement ratio of 75%.



Members who join at older ages who have not preserved their retirement savings from previous funds can expect replacement ratios well below the 75% level. These members will have to increase their contributions towards retirement benefits or continue to work and contribute after the normal retirement age (if allowed) to achieve higher replacement ratios.

The average contribution rates towards retirement savings seen in this Member Watch analysis is not sufficient for members to receive a replacement ratio of 75%. Older fund members who have not preserved their funds when changing jobs in the past will need to contribute more than 17% to achieve a replacement ratio of 75%.

Expected replacement ratio at retirement age 60 for different contribution rates



Expected replacement ratio at retirement age 65 for different contribution rates

