8. How much of the retirement savings is used to generate an income

8.1 Retirement age

The average age of retirees in the 2019 Member Watch was 61.49 years. However, the average normal retirement age of the members was 63, which is an increase from 60.09 in 2012. The actual retirement age has increased by 1.40 years since 2012, which may be because most members reaching age 60 are not yet ready to retire as a result of insufficient retirement savings.

On average, members are retiring around two years earlier than their normal retirement age. Evidence suggests that people who work later are least likely to die early.[4] People who retire earlier often report that they feel in poorer health and view their job loss in a similar way to people who have been retrenched. However, continuing to work can severely damage the health of those in physically demanding jobs. For this reason, it's important to note that certain jobs do not lend themselves to later retirement.

Higher actual retirement ages coupled with increasing life expectancies and the increasing cost of retirement provide strong motivation for employers to consider increasing their normal retirement age.

When considering whether or not to increase normal retirement ages, the following points become important:

- Depending on the industry and, in particular, where intellectual and people skills are required, people can add value well beyond age 60, 65 and even beyond age 70. Extending the retirement age retains the knowledge and experience in the business.
- A global comparison of retirement ages and youth unemployment rates[5] shows that there is no relationship between the two.
- When the employer is considering the retirement age, different retirement ages could be considered for different groups of workers. Other elements of the benefits package would also need to be changed to make sure that each group receives an appropriate package.

Extra time in employment could potentially be the saving grace, not only for the employee who now has extra time to save from income while in employment, but the entire family unit that relies on the ongoing monthly income and may potentially be dependent on the income in retirement.

4 Bellaby, P. 2006. Can they carry on working? Later retirement, health and social inequality in an aging population. International Journal of Health Sciences, Volume 36, Issue 1, pp. 1–23.
5 Bellaby, P. 2006. Can they carry on working? Later retirement, health and social inequality in an aging population. International Journal of Health Sciences, Volume 36, Issue 1, pp. 1–23.
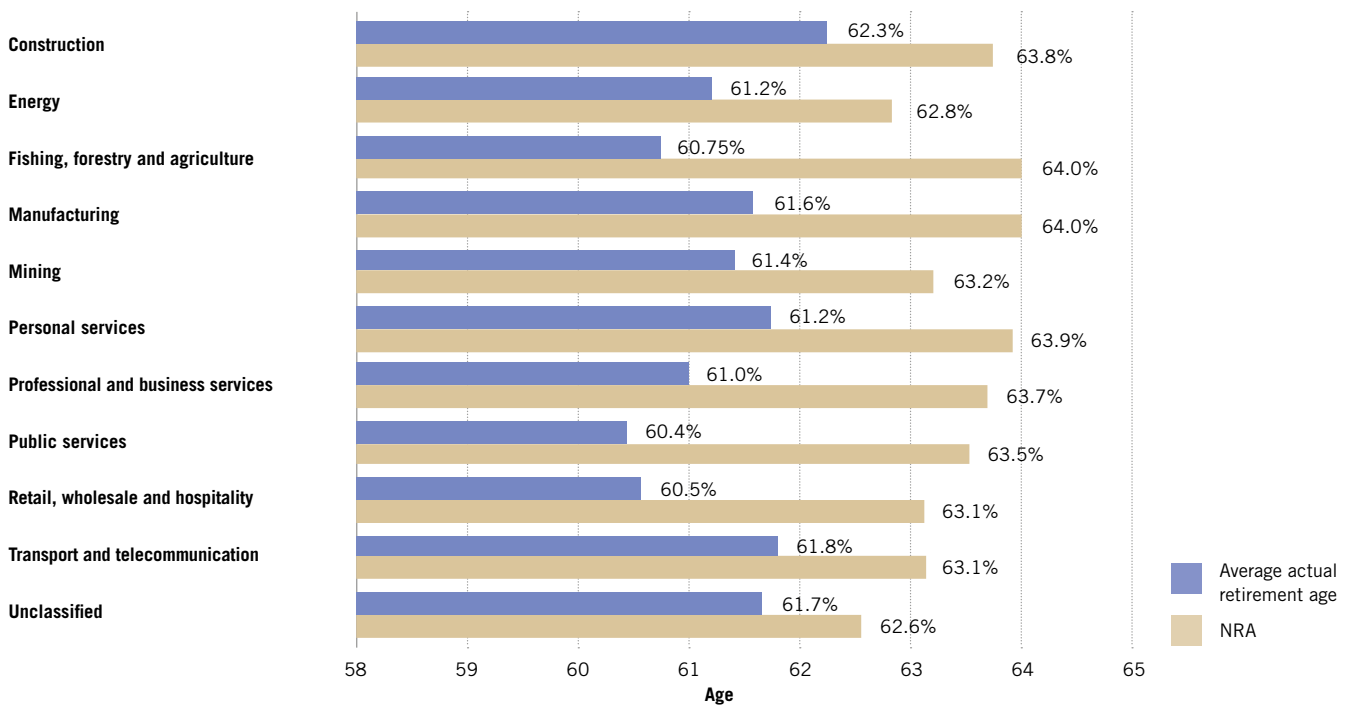
8.2 Retirement age in each sector

Actual and normal retirement ages are shown below across the sectors.

Almost 62% of the members work in sectors where jobs are physically demanding. Since December 2012 the actual retirement age has always been lower than the normal retirement age in these sectors.

Across all industries, members are retiring far earlier than their fund's stipulated normal retirement age. The greatest difference is in the fishing, forestry and agriculture sector, where the average normal retirement age is 64.02 but members tend to retire at the age of 60.75, three years earlier on average.

Actual and normal retirement age in each sector

Sector	Average actual retirement age	NRA
Construction	62.3%	63.8%
Energy	61.2%	62.8%
Fishing, forestry and agriculture	60.75%	64.0%
Manufacturing	61.6%	64.0%
Mining	61.4%	63.2%
Personal services	61.2%	63.9%
Professional and business services	61.0%	63.7%
Public services	60.4%	63.5%
Retail, wholesale and hospitality	60.5%	63.1%
Transport and telecommunication	61.8%	63.1%
Unclassified	61.7%	62.6%

Age: 58, 59, 60, 61, 62, 63, 64, 65

Legend:
- Average actual retirement age
- NRA

8.3 Replacement ratio and pensionable service

Members with long service (30 years or more) can expect higher benefits at retirement. A total of 53% of members with 35 years' service or more achieved a replacement ratio of 60% or more.

However, a number of retirees with long service achieved low replacement ratios, which means that the fund design may not be appropriate or that those people did not preserve when they changed jobs in the past.

Length of pensionable service vs actual replacement ratio

Replacement ratio

- 0–20%
- 20%–40%
- 40%–60%
- 60%–80%
- 80%–100%
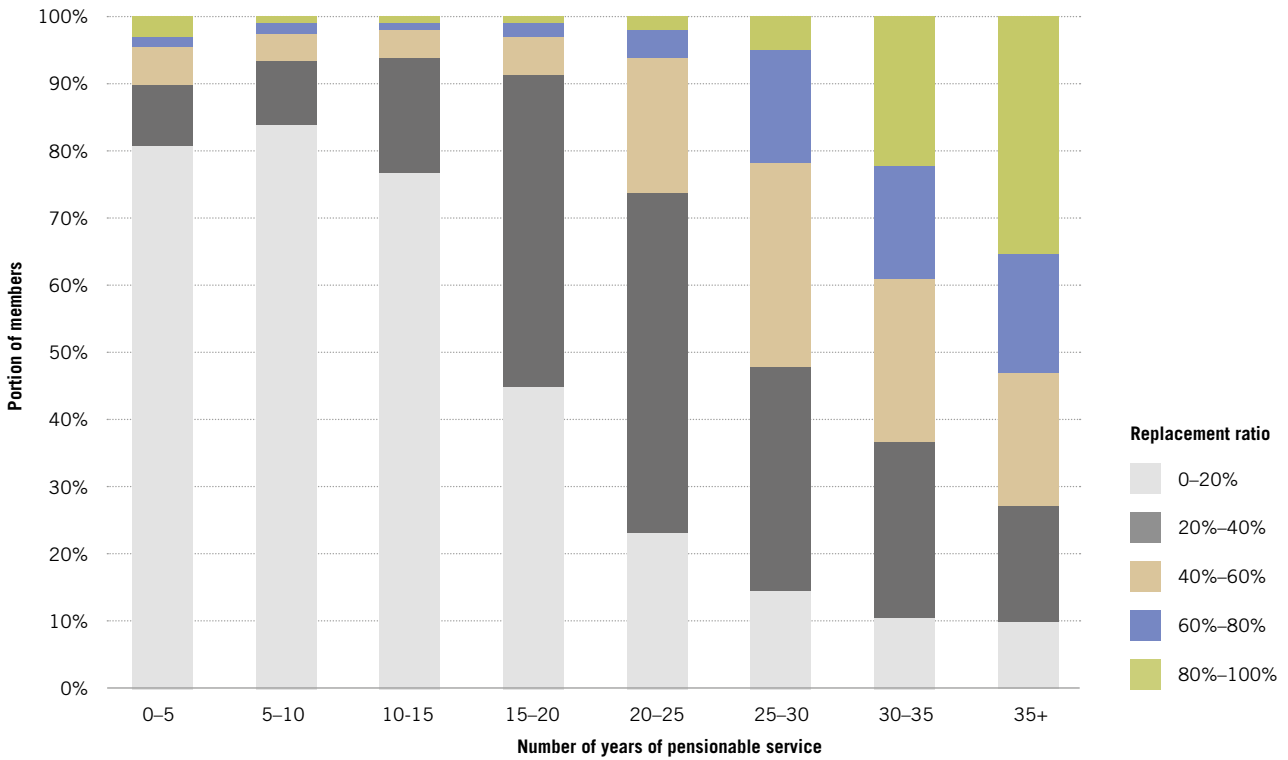
8.4 Actual replacement ratios

The 2019 Member Watch analysis shows that the average replacement ratio at retirement is 26.2%, assuming the member bought a with-profit annuity at retirement. This is a decrease in the average replacement ratio seen in the 2012 analysis of 31.7% and 2018 analysis of 28.8%. Although this analysis excludes retirement savings outside the retirement fund, the low level of preservation means that it is unlikely that many members have other significant investments for their retirement.
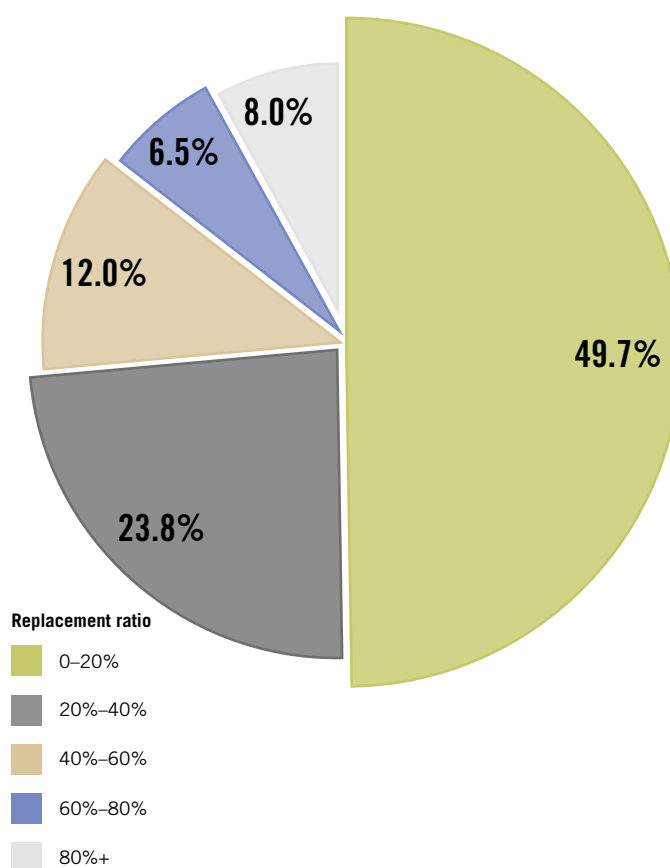
This graph reflects the estimated retirement benefits (the replacement ratio) received by members who retired in the past two and half years.

Approximately 49.7% of retirees in the analysis achieved a replacement ratio less than 20%. This is lower than the findings of the 2018 analysis where 51.7% achieved a replacement ratio less than 20%. There is a significant increase of 2.8% of retirees who achieved a replacement ratio above 80% as compared to the 2018 analysis.

The low replacement ratio outcomes may be because of:
- low contribution rates
- lack of preservation
- the increasing cost of buying a pension at retirement (because people live longer – longevity – and real yields are reducing)
- the impact of the recession on retirement savings

Actual replacement ratio achieved at retirement

Replacement ratio
- 0–20%
- 20%–40%
- 40%–60%
- 60%–80%
- 80%+

8.0%
6.5%
12.0%
49.7%
23.8%

## 8.5 Retirement benefits by sector

The following graphs show the estimated replacement ratio received by members in each industry at retirement.

Most members retire with a replacement ratio of less than 20%. This is the highest in the construction sector (65.9% of members) and lowest in the energy and public services sectors (40.8% of members).

This may be as a result of low contribution rates. In the construction sector, the contributions are the lowest. In the public services sector, the contributions are the highest. On average, 80% of members from the construction sector do not preserve their retirement savings when they change jobs.

Approximately 11.6% of members in the public services sector retire with a replacement ratio of 80% and higher.

Distribution of replacement ratio achieved
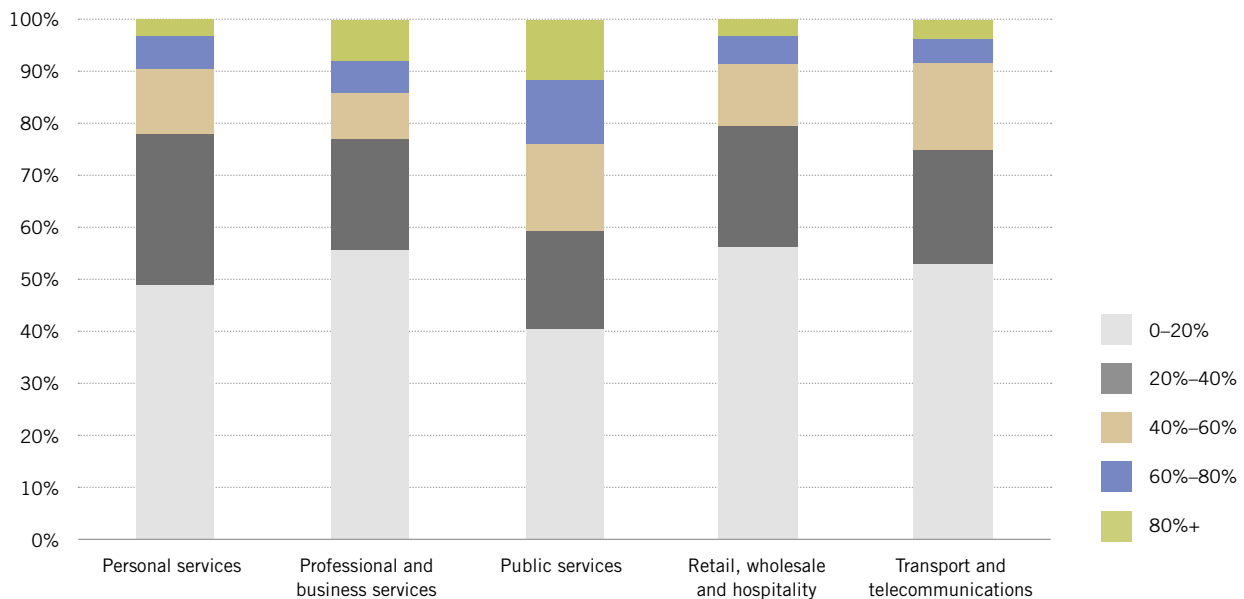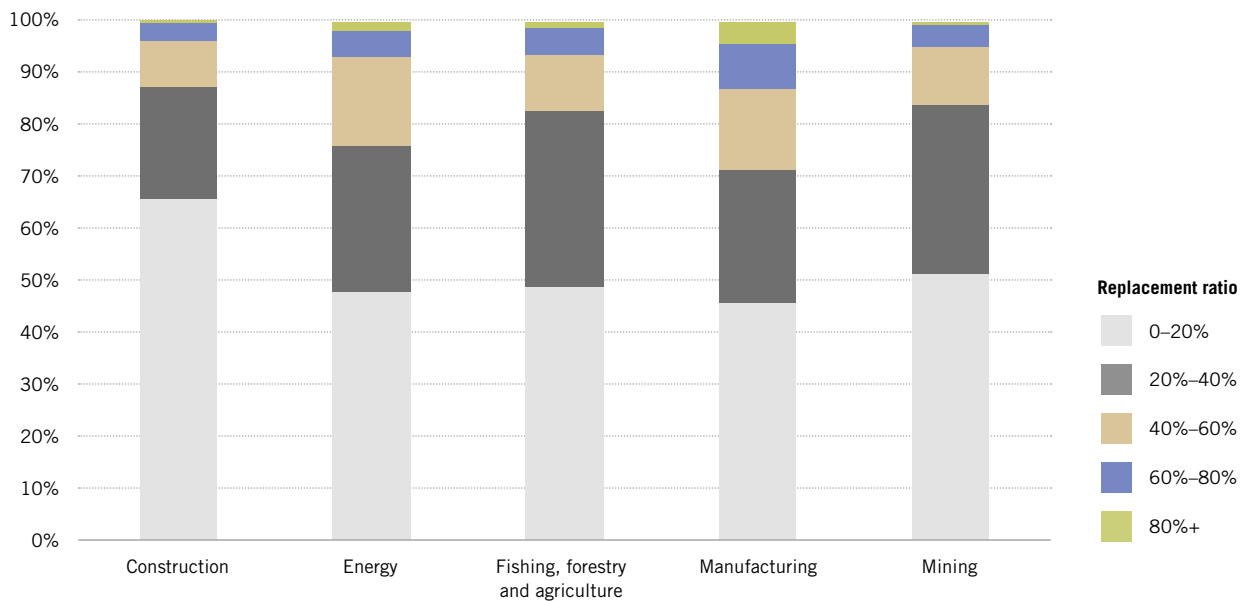
8.6 Increasing retirement age

The impact of retiring at various ages is illustrated below for a new member aged 25 contributing at 11.8% of salary.

Deciding to retire at the age of 65 rather than the age of 55 can almost double a member's replacement ratio.

Based on the information we know about retirees, they are only achieving a replacement ratio at retirement of 26.7%.

On average, members are retiring around two years earlier than their normal retirement age. For one thing, this throws into question whether the current de-risking in the LifeStage model remains appropriate.

Retiring four years earlier means a reduction of approximately 10% in one's income post retirement. This is significant given the already low average replacement ratio.

A large number of retirees with long service still achieved a low replacement ratio at retirement. This suggests that the fund design may not be appropriate to achieve the desired outcomes.

Having a fund credit 9 times or more than your pensionable salary at retirement increases the chances of a member reaching the 75% replacement ratio mark.

Expected replacement ratio at various retirement ages
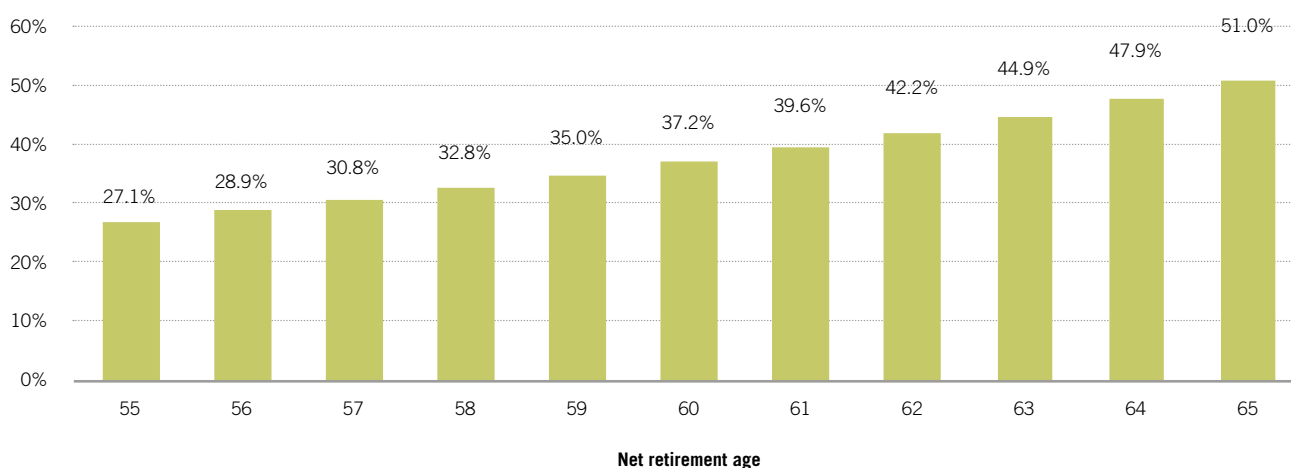
8.7 The multiple of salary saved affects the replacement ratio

This graph shows fund credit at retirement as a multiple of salary with the replacement ratio achieved.

Retirees who had a fund credit of more than 9 times their annual pensionable salary managed to achieve a replacement ratio of 60% or more. Members who retired with a fund credit less than 4 times their annual pensionable salary retired with a replacement ratio of less than 20%.

At least 756 894 members were used for the analysis, of which 360 778 are females and 396 116 are males. Members with a minimum annual pensionable salary of R40 000 were used. Members with a fund credit that is more than 25 times their annual pensionable were excluded.