Media Release
Actuarial Society of South Africa
7 May 2018

The triple dilemma facing women when saving for a comfortable retirement

Research in Britain has revealed a shocking surge in the gap between men and women when it comes to living standards in retirement, according to an article* published by The Actuary, the magazine of the Institute and Faculty of Actuaries in the UK.

The research by insurance company Royal London found that the gender pension gap in the UK is almost three times larger now than 10 years ago. An analysis of British government data also showed that women's average incomes increased by just 7% in real terms during that time, compared with a 23% rise for men.

While comparative research is not available in South Africa, Niel Fourie, Public Policy Actuary at the Actuarial Society of South Africa, says it would not be surprising if South African women found themselves in a similar situation.

Fourie acknowledges that women face three significant dilemmas that impact negatively on their ability to accumulate enough savings to enable them to maintain the same living standards in retirement as men:

- Women on average tend to outlive men by up to five years, which means they have to invest more to achieve a financially secure retirement.
- Since women often put their careers on hold for a number of years to have and raise their children, they usually also have less time in which to accumulate their retirement savings.
- Women are often younger than their male partners when both retire at the same time, which means women sacrifice some additional earning years.

Outliving your retirement capital

Fourie says if a husband and wife retire at the same time with a comparable amount of retirement capital and similar income needs, the woman runs a greater risk of outliving her money.

"This means that as a woman you will need to accumulate more retirement capital during your working years than a man in order to secure the same level of retirement income for the rest of your life."

A rule of thumb says that the average person should be contributing at least 15% of before-tax earnings towards retirement savings. Fourie says while this may be true for men, woman should be investing closer to 20% of their pre-tax income to secure enough retirement funding capital.

Say a man and a woman each earn R20 000 before tax a month. The man would need to put away R3 000 a month towards retirement, but the woman would have to invest closer to R4 000 every month to have the same amount of income in her retirement years.

The time factor

Not only do women have to invest more to achieve a financially secure retirement, they usually also have less time in which to achieve this.

Let's look at Jane's situation. She starts investing for her retirement at age 25. Her goal is to have an income that enables her to maintain her living standard, which increases with inflation in retirement. For illustration let's say this amounts to R500 000 a year.

Her financial adviser tells her that she can achieve this if she contributes 20% of her before-tax income to a retirement fund. She follows this advice, but from age 30 to 35 Jane takes some time off to raise her new family. Luckily Jane did not cash in her retirement savings, yet when she returns to work after five years her adviser tells her that she now needs to contribute 25% of her earnings to make up for lost time and capital. Had Jane dipped into her retirement capital the situation would have been even worse - she would have had to invest closer to 30% of her salary to make up for lost time and capital.

Fourie says as tempting as it may be to cash in on your retirement savings when you take a break from your career, it is just not worth it. "Depending on your circumstances you may never catch up. And to make it worse you lose out on the benefits of compounding, which is the growth achieved on your original investment plus the growth on the returns already earned."

Retiring too early

Fourie says to demonstrate the impact of retiring too early, let's assume that Jane's situation allows her to invest the required money every month and she is on track to building up enough capital to fund her desired yearly income as per the example above when she retires at age 65. But then she and her husband decide to retire when he turns 65 and she is only 60. Jane suddenly has five years less to invest, but faces the prospect of living much longer than her husband as a pensioner.

Instead of being able to draw the illustrated R500 000 in the first year at age 65, Jane would now have to settle for less than R300 000 from age 60.

Taking charge

Fourie has the following advice for women who want to be financially independent in their retirement years:

- Save and invest independently of your life partner. And remember, you need to save more than he does.
- Wherever possible, don't access your retirement savings when you take time off to raise your family.

- If you are younger than your partner and you are hoping to retire at the same time, make sure you factor this into your investment planning.
- If you cannot afford to retire completely, scale down your working hours rather than exiting your career completely. Pushing out your retirement date can help you significantly increase your retirement capital.
- Take an active interest in your finances and ensure that you participate in important decisions such as saving for your retirement.
- Plan ahead and consider what would happen if your life partner dies, becomes disabled or ends the relationship. Does your antenuptial contract give you the right to claim a portion of his retirement capital should you get divorced? Will it be enough to fund your retirement in later years?

*The article referred in the introduction can be found here.

Ends

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