



## Exploring Adequate Retirement Funding in South Africa: A KwaZulu-Natal Financial Planner's View

**Shagaran Rathnasamy\***

School of Accounting, Economics and Finance, Faculty of Law and Management Studies, University of KwaZulu-Natal, Pietermaritzburg Campus, South Africa

**Jugjith Deodutt**

School of Accounting, Economics and Finance, Faculty of Law and Management Studies, University of KwaZulu-Natal, Westville Campus, South Africa

### 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 *et al.* (1995), as cited in Greninger *et al.* (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.

**Keywords:** Adequate retirement funding; KwaZulu-Natal; Financial planner; Retirement funding; Retirement planning.



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### 1. Introduction

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 *et al.* (2017)). 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. 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.

"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 *et al.*, 2000)." A number of research studies looked at the financial preparedness of individuals; however, communities still question the meaning of the term retirement. Gustman *et al.* (1995), as cited in Greninger *et al.* (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.

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 *et al.*, 2017). Society relies on financial planners to offer a holistic overall view on retirement thus providing their clients with peace of mind.

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.

## 2. Material and Method

The objectives of this study was to ascertain retirement planning considerations and guidelines from financial planners and determine if a consensus exists, amongst financial planners, regarding retirement planning considerations and guidelines. 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 will also 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. This study used 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.

The Financial Planning Institute of Southern Africa sent out questionnaires via e-mail to 704 financial planners in KwaZulu-Natal on 30 October 2017. The data from the responses, was analysed using the Statistical Package for Social Sciences (or SPSS) to formulate conclusions based on the responses received.

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.

## 3. Results

The reliability statistics were conducted on 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.

Table-1. 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. The limitation of the study was the poor response rate from financial planners in completing the questionnaires with only 50 participants or fourteen percent (14%) which 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. However, 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.

#### 4. Discussion

Based on the Cronbach's Alpha pretesting and validation, it was 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)

Conducted frequency tests also indicate that there is indeed a consensus among financial planners, regarding retirement planning considerations and guidelines. It is, however, worth noting 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.

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.

#### 5. Conclusion

The study confirmed that financial planners in KwaZulu-Natal use financial planning considerations and guidelines sent out in the questionnaire and there is indeed a consensus among financial planners, regarding retirement planning considerations and guidelines. A recommendation 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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