Introduction

A lot of things are said about retirement savings by a lot of people. In general, knowledge levels are nowhere near as high as they could be even among some who work in the industry and should know better.

Some are true. Some are not true. Some depend on the circumstances. Talk to a senior consultant from Robson Savage to hear more about any of these issues.

Comments—Hit or Myth?

As I get closer to retirement, my fund assets should be invested in a more conservative manner.

*Myth* It might be clever for you to do this, but not necessarily. It isn’t always the right thing to do.

*Hit* Living annuities make sense because when you die the remaining capital passes to your dependants.

*Myth* It’s true that the balance of the capital passes to your dependants but people are often not aware of the impact this has on the amount of their pension.

*Hit* Giving members suitably selected investment portfolios to choose from can work to their advantage.

*Myth* It is however very important that members are properly advised so that they can properly manage their risk as their life and career unfold.

*Hit* Stand-alone funds are not cost effective.

*Myth* What matters most is the structure of the fund’s costs and how well this is managed, no matter what kind of fund you are in. Many umbrella arrangements are more expensive.

Unapproved death cover is better because you don’t pay tax on the benefit.

*Myth* It is more cost effective to buy cover with pre-tax money and pay the tax on any benefits than it is to buy cover with post-tax money.

Saving money early in your career is wise because compound interest then has time to work to your advantage.

*Hit* Investing wisely and then leaving money alone to work is magic! Over the course of your career it is one of the best things you can do.

Umbrella funds are the perfect answer because other people take all the responsibility and risk.

*Myth* The disadvantages of umbrella funds (and the corresponding pros of stand alone funds) are often not properly understood.

*Hit* Investing in an index makes sense because on average active managers do not beat the market after allowing for costs.

Hmmm. This is an old debate and despite what you might read, nobody has yet proved the case one way or the other. It’s a very interesting topic for discussion though.

It is important to save costs because every cent spent reduces members’ benefits.

*Hit* with a caution! What really matters for savers is the return they achieve after all costs. By focusing on costs alone it’s possible you end up worse off even though your expenses were lower.

In investments, ‘risk’ is measured by quantifying the extent to which the value of your money has varied over the period. The more it has swung up and down, the riskier it is.

*Myth* Risk is one of the most misunderstood concepts in the world of investing. There is a lot more to risk than this overly simple and very commonly repeated notion.

The gross rate of return on a portfolio is all you need to look at to judge ‘how good it is.

*Myth* Each member’s ultimate benefit is determined by the rate of return earned after allowing for all costs. Gross rates of return (ignoring costs) might mask high costs and be misleading.

To know how well your investments have done, you just need to compare your returns to other managers.

Partial hit! We all like to compare how we did against other people, but if everyone is doing badly this method of assessment will be misleading.

If an investment manager has done well in the past, it is likely to do so in the future.

*Myth* You need to consider many more factors than just past performance to arrive at a view on possible future performance.

*Hit* Multi-manager portfolios can deliver appropriate returns in line with a fund’s risk profile.

*Myth* The truth is that many funds have achieved very acceptable returns using multi-manager portfolios as a risk management tool.

In everything to do with retirement funds, ‘big is beautiful’.

*Myth* Quality of service and value for money are what matter.

The job of a retirement fund consultant is to sell you products on behalf of their employer.

*Myth* It shouldn’t be so, although far too many act this way.

The notion that a ‘seamless’ investment transition at retirement is valuable ignores other important issues.

*Hit* Focussing on the transition of your assets from being a member to being a pensioner draws attention away from other very important considerations that might be of greater benefit to members.

‘Living annuities’ make more sense for most people who retire.

*Myth* There is evidence that living annuities are often sold because of the commissions and fees earned by the salesperson. The truth is they are appropriate for some people but not for all.

By switching your investment portfolio in line with changing economic and other conditions, you will significantly enhance the value of your fund savings.

*Myth* In general, it is not wise to try and ‘time the market’ by moving your investments between portfolios as there is evidence this destroys more value than it adds. Rather have a sound long-term strategy and stick to it.

There’s so much to talk about and so much you need to know. Talk to Robson Savage to find out what is really best for you.
About us...

Robson Savage provides professional administration, consulting and actuarial services to retirement funds, in addition to investment advice and individual financial planning where required.

Recognition includes awards from bodies such as PMR (Diamond and Golden Arrow awards), and the Principal Officers Association (Imbasa Yongolide Awards) an accolade that represents the Clients' choice of service providers from across the industry.

We are independent from other financial and investments institutions, and deal only with service providers selected by the funds' trustees. This independence allows us to consider all available options before giving advice, and our input is untainted and unaffected by conflicts of interest.

Our administration runs on in-house systems developed by professionals catering specifically for use with South African funds. Our key focus is the maintenance of clean data. This allows us to deliver accurate and efficient benefit payments and reliable information, whether benefit statements, trustee or financial reporting.

On the road for over 10 years, we are a successful, medium-sized company, providing boutique-style services to many satisfied Clients.

Contact us today to find out more or to set up the opportunity for us to talk to you about what we can do for you.

Ensuring you are better informed to optimise the value of your retirement savings

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