RETIREMENT 101

Planning and investing for the retirement you deserve

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CHAPTER 1

What is your **retirement goal?**

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The primary goal for most retirement savers is to ensure that the lifestyle they're accustomed to continues into retirement.

Let's call that a "comfortable retirement". How much money secures a comfortable retirement? For most savers, that is the proverbial million-dollar question. Is it R2 million, or R5 million, or even R10 million? There is no one correct answer because we all have different lifestyles and expectations. If you could live comfortably on R10,000 a month, then R2 million might be enough for a comfortable retirement; but if you needed R50,000 a month, then even R5 million might be too little.

For most South Africans, a comfortable retirement requires an income that replaces an adequate percentage of their final earnings and keeps pace with inflation for the rest of their life. This is known as your income replacement ratio.

What income replacement ratio should you strive for?

Most financial planners recommend aiming for a replacement ratio between **70% and 80%** of your pre-retirement income, with 75% being the widely accepted rule of thumb for a comfortable retirement.

This is a general industry guideline and may not be suitable for everyone. Your actual replacement ratio depends on lifestyle, health, and circumstances.

Example: if your final monthly salary is R40,000, you should ideally aim to receive between R28,000 and R32,000 per month in retirement.

Why 75% instead of 100%?

Your retirement income needs are typically lower than your working income because:

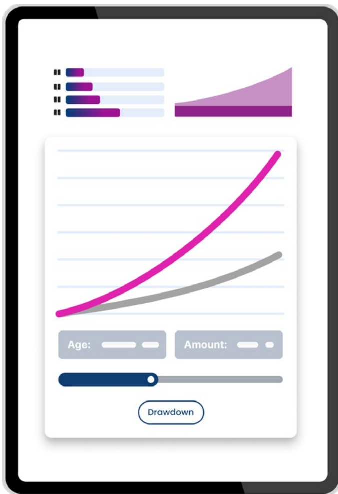
- You will no longer be saving for retirement
- Your debt repayments should be minimal
- You might no longer have major child-related expenses
- Your average tax rate in retirement will be lower

As people reach retirement their medical costs are likely to increase and possibly expenses related to leisure activities. According to the 10X Retirement Reality Report from 2023/2024, only 35% of retirees who had saved for retirement feel "fairly" or "very confident" that their savings will last.

Reality Check

While 75% is the ideal, the 10X Retirement Reality Report 2023/2024 reveals a stark gap between expectations and reality.
Only 6% of South Africans are on track to retire comfortably, with most falling far short of the 75% replacement ratio target.

These benchmarks are for illustration only. Actual retirement needs vary depending on lifestyle, health, longevity, and investment performance.



Financial planning tools to help you calculate your goal

Retirement planning tools, such as the 10X Retirement Annuity calculator, can help you determine your retirement goal by considering key factors including your age, gender, expected retirement age, current savings, and the likely net real investment return (after fees and inflation).

Disclaimer: Calculator results are illustrative only and not guaranteed. Your actual outcome will depend on your personal circumstances.

What if you're behind on your retirement savings?

If calculations show you're not on track, don't panic. The earlier you start making adjustments, the less dramatic they need to be. However, even if you're starting later, there are several things you could do to progress towards your goal. Some options you might want to consider:

Increase your monthly contributions

Even a 1-2% increase can compound into significant additional savings over time.

Extend your working years

Each additional year substantially improves your retirement outcome.

Consider part-time income in early retirement

Bridge the gap with part-time work or consulting income.

Review and reduce investment fees

High fees can quietly erode your long-term returns.

Cut unnecessary expenses

Free up more money for retirement contributions.

Preserve retirement savings during job changes

Roll over accounts instead of cashing out to maintain tax-advantaged growth.

Remember: starting late is better than never starting at all. A 10X Investments study found that while it's challenging to make up for retirement savings deficits after age 50, it's not impossible - though it may require saving around 60% of your income to catch up.

A note on inflation and long-term planning

When using retirement calculators, don't be alarmed by large rand amounts projected decades into the future. **Check whether your calculator shows inflation-adjusted figures or not**- some calculators display amounts in today's purchasing power (real terms), while others show nominal amounts that don't account for inflation.

Inflation is an important consideration in financial planning, but properly designed calculations account for this. Although future expenses and your salary will likely increase with inflation over time, long-term investment returns also compensate for inflation. In other words, both your retirement goal (the cost of the annuity) and your retirement savings should be subject to the same inflation rate over time.

All projections should be viewed in real (inflation-adjusted) terms to help you understand what the money will actually buy in today's purchasing power.

CHAPTER 2

Which products will help you save towards your goal?

There are many savings and investment vehicles available, from unit trusts to money market accounts to purchasing property.

Although investment views differ, a widely recommended way to save for retirement is within a SARS-approved retirement fund subject to the requirements of the Pension Fund Act.

The South African government provides substantial tax benefits on these products to incentivise citizens to save more for retirement.

Products that fall in this category include:

Employer-sponsored retirement funds

- Provident funds
- Pension funds.

Preservation funds

Designed for people transferring out of an employer-sponsored retirement fund when changing jobs.

Retirement Annuity (RA) funds

Designed for individual investors

Employer-sponsored retirement funds

If your company offers a pension or provident fund, you'll be required by law to join and contribute according to the fund rules. The good news? Your contributions come straight off your salary before tax, which means you'll pay less PAYE each month.

The basic deal

You can only access this money when you leave your employer - whether that's through resignation, retrenchment, dismissal, or retirement. If you withdraw the money when leaving, you'll pay tax according to withdrawal tax tables. But if you preserve the money or transfer it to another retirement fund, there's no tax.

Retirement Annuity (RA) funds

If you're self-employed, work for a company without a retirement fund, or want to contribute more than your employer fund allows, a retirement annuity (RA) is a **popular way to build retirement savings.**

Here's how it works

You select a provider, decide how much to contribute each month, and receive the same tax benefits available through employer funds. Contributions to an RA are deductible from your taxable income (within SARS limits), which reduces the amount of income tax you pay and increases the money going towards your retirement savings.

Under the two-pot system, your RA works exactly like employer funds:

- New contributions: one-third allocated to savings, two-thirds to retirement
- Same withdrawal rules: once per tax year from the savings component
- At retirement, the retirement component must buy an annuity if it's above R165,000

Who should consider an RA?

- Self-employed individuals
- Employees without access to a company retirement fund
- Anyone wanting to save more than their employer fund allows

Preservation fund

When you leave a job, preservation funds can be your financial lifeline - they keep your retirement savings invested and growing instead of disappearing into immediate spending and tax payments.

Here's how it works

You transfer your retirement savings from your old employer's fund to a preservation fund (tax-free), where it continues earning returns. You can't make new contributions, but you can transfer money from other retirement funds if you change jobs again.

Under the two-pot system, your preservation fund maintains all the same pot structures:

- Your vested component (pre-September 2024 savings) keeps the old rules - you still get one withdrawal opportunity if you really need it
- Your savings component can be accessed once per tax year
- Your retirement component stays locked until age 55

What about Tax-Free Savings Accounts (TFSAs)?

You might be wondering: "Should I use a TFSA instead of these retirement funds?" It's a fair question - after all, TFSAs offer tax-free growth and you can access your money anytime without penalties.

The short answer is: TFSAs are excellent, but they're the supporting actor, not the star of your retirement plan.

Why TFSAs shouldn't be your main retirement vehicle?

Let's do the maths. TFSAs allow you to invest R36,000 per year (with a lifetime limit of R500,000). If you're earning R40,000 per month and aiming for a 75% replacement ratio, you'll need around R8 million by retirement. Even if you maxed out your TFSA every year for 25 years and earned excellent returns, you'd fall dramatically short of your retirement goal.

More importantly, the things that make TFSAs attractive - easy access to your money, no restrictions on withdrawals - are exactly what make them less suitable for retirement savings.

Where do TFSAs fit in your retirement strategy?

Think of TFSAs as the perfect complement to your retirement funds, not a replacement for them.

Here's how smart savers use them:

- **After maximising your retirement contributions** - once you're contributing at least 15% to retirement funds, TFSAs give you additional tax-free growth
- **For early retirement bridging**- if you want to retire before 55, TFSAs can provide income until you can access your retirement funds

Reality Check

Most South Africans struggle to save even 10% of their income for retirement, let alone max out both retirement funds and TFSAs. Focus on getting your retirement fund contributions right first - that's where the real magic happens for long-term wealth building.

CHAPTER 3

Which retirement product **should you choose?**

The easy decision

If your employer offers a pension or provident fund, it usually makes sense to join it. The fund's board of trustees has already chosen the service providers, and you'll get the benefit of employer contributions (if available) plus immediate tax relief.

The hard decision

If you need an RA - either because you don't have access to an employer fund, or you want to save more - you'll need to choose wisely. This is where things get tricky, because not all RAs are created equal.

What to watch out for when choosing an RA

Some retirement annuities appear attractive upfront but can seriously damage your long-term wealth. Here are the red flags to avoid:

Inflexible contract-based RAs

Some RAs lock you into long-term contracts where you promise to contribute a specific amount every month for decades. But should you miss a payment because you lose your job? You'll face penalty charges that can cost you up to 30% of your investment.

How this hurts you: Let's say you invest R2,000 per month for 10 years, then lose your job and need to stop contributions. With a penalty-heavy RA, you could lose R60,000 or more in termination charges - money that should have been growing for your retirement.

The better choice: Look for flexible RAs where you can:

- Stop or reduce contributions anytime without penalties
- Take contribution holidays when money is tight
- Switch providers if you find a better deal
- Access your savings component under the two-pot system without additional charges

High-fee products that enrich others, not you

Some retirement annuities charge high fees; sometimes 3% or more per year. While the difference between 1% and 3% may seem small, it compounds significantly over time.

Why fees matter so much: On a R2,000 monthly contribution over 30 years, the difference between paying 1% vs 3% in annual fees could reduce your retirement savings by more than R1 million.

This is a simplified illustration based on assumed growth rates. Actual outcomes will depend on investment returns, inflation, and your personal circumstances.

What drives high fees:

- Upfront broker commissions paid from your investment
- Administrative charges layered on top of investment fees
- Platform fees for using the provider's system
- Hidden charges for "selling expenses"

Commission-driven advice

Traditional RA providers often pay brokers large upfront commissions, in some cases equal to as much as two years of contributions. These commissions are deducted from your investment over time, often with additional charges.

The conflict of interest: Your adviser has an incentive to recommend the RA with the highest commission and longest contract term, not necessarily the best returns or lowest fees for you.

How to choose an RA that works for you

Ask these four key questions:

1. What are the total annual fees?

Look for total fees (including investment management, administration, and advice), many investors aim for total fees below 1% per year. Don't accept vague answers - demand a clear breakdown of your Effective Annual Cost (EAC).

2. Can I stop, reduce, or take a break from contributions without penalties?

Life happens. With many modern retirement annuities, you can adjust your contributions without incurring the high penalty charges that were common in older products.

3. How is my adviser paid?

Ideally, you want to pay your adviser directly for advice, rather than through commissions that come out of your investment returns. If they are paid by commission, they should disclose exactly how much.

4. How does the two-pot system work with this RA?

All RAs now operate under the two-pot system, but some providers make accessing your savings component more difficult or expensive than others. Make sure you understand the process and any costs involved.

What good RAs look like

Modern, flexible RAs typically offer:	Red flags to avoid:
No long-term contracts or termination penalties	Advisers who won't clearly explain fees or commissions
Ability to invest directly without forced intermediaries	Products with termination penalties above 0%
Clear, transparent fee structures	Complex fee structures you can't understand
Easy access to your savings component under the two-pot system	Pressure to sign long-term contracts
Online management and reporting	Promises of guaranteed high returns
	Reluctance to provide written fee disclosures

The bottom line

Remember: you're taking all the investment risk in your RA, so don't let high fees and poor product design walk away with your retirement rewards. The two-pot system has made RAs more flexible by giving you annual access to part of your savings, but it can't protect you from choosing the wrong provider.

Before you sign anything:

- Get fee disclosures in writing
- Understand exactly what you're committing to
- Shop around - there are excellent, low-cost options available
- Consider working with a fee-based adviser who puts your interests first

CHAPTER 4

The 10X Retirement Annuity

This section contains information about the 10X Retirement Annuity. It is one of several options in the South African market and may not be suitable for all investors. Compare costs and features across providers and seek independent advice before investing.

A retirement annuity designed for simplicity and transparency

The 10X Retirement Annuity is designed to help investors save for retirement in a straightforward and cost-efficient way. It combines tax benefits, diversification, and an investment strategy that automatically adjusts risk as you move closer to retirement.

It is one of several Retirement Annuity options available in the South African market and may be suitable for investors who value direct access, transparent fees, and a rules-based investment approach.

Strategic Asset Allocation

In our flagship 10X Your Future Fund, we focus on the big decision that drives 90% of your returns - how much to put in different types of investments.

Rather than trying to guess what happens next month, we position your portfolio/fund for the best returns over the next 5-10 years. This disciplined approach helps you reach your retirement goals with greater certainty.

Smart Index Investing

We use index funds to keep your costs low while capturing market returns. But we're not on autopilot - we actively manage risk to make sure no single company can derail your retirement.

This gives you the benefits of the market's growth without paying high fees to stock pickers who rarely beat the market anyway..

Low fees

Every rand saved in fees means more money working for your retirement. 10X charges a single, all-in fee that covers everything - no hidden costs or surprises. Fees are applied on a tiered basis (like tax brackets), so the more you save, the lower your rate:

1.04% p.a
on the first R1 million

0.81% p.a
on the next R4 million

0.58% p.a
on the next R5 million

0.40% p.a
on the next R10 million

Trading costs of 0.12%-0.18% p.a. apply depending on your chosen fund.

Trusted by Thousands

With a track record since 2008, the 10X Your Future Fund (previously known as the 10X High Equity Fund) has delivered solid returns.

Our approach has been battle-tested through challenging market conditions.

CHAPTER 5

The Two-Pot System

On 1st of September 2024, South Africa introduced the two-pot retirement system - the most significant change to retirement savings in decades. This system fundamentally changes how your retirement money works, regardless of which type of fund you're in.

Here's how it works

Your retirement savings now get divided into different "pots":

The Vested Component

All your savings accumulated up to 31 August 2024. The old rules continue to apply to this money.

The Savings Component

One-third of all new contributions from September 1, 2024 onward go here, plus a one-time "seed" amount. You can access this money once per tax year without resigning from your job.

The Retirement Component

Two-thirds of all new contributions go here and stay locked up until retirement.

The Seed Money

On implementation day, 10% of your existing retirement savings (capped at R30,000) was moved into your savings component. So if you had R100,000 saved, R10,000 went into your accessible savings pot. If you had R1 million, only R30,000 went in due to the cap.

Key rules for accessing your savings component:

- Minimum withdrawal of R2,000
- Only one withdrawal per tax year
- Withdrawals are taxed at your marginal tax rate - this could push you into a higher tax bracket

The big picture: This system aims to give you emergency access to some money while protecting most of your savings for actual retirement. It also removes the ability to cash out your retirement savings when changing jobs (for contributions made after 1 September 2024).

A word of caution about the savings component

The new two-pot system's savings component might feel like "free money" you can access, but remember: each time you access a savings withdrawal benefit, the amount available to provide you with an income in retirement will be reduced.

Think of it as emergency money, not discretionary spending money. National Treasury created this system to provide a solution for South Africans who struggle financially due to a lack of "rainy day" funds, not to fund holidays or lifestyle purchases.

The rules of the two-pot retirement system are based on legislation effective 1 September 2024. Regulations may be amended in future by National Treasury or SARS.

CHAPTER 6

Understanding the benefits of formal retirement products

You could save for retirement in a money market account, buy unit trusts, or invest directly in shares. But here's why formal retirement product are in a league of their own - they offer benefits that other investments simply can't match.

Massive tax benefits that boost your savings

retirement products offer unique tax and legal advantages that are hard to replicate elsewhere.

Here's how they work:

Immediate tax relief on contributions

You can deduct contributions up to 27.5% of your taxable income or gross remuneration (whichever is higher), with a maximum deduction of R350,000 per annum. This applies to the total of all your retirement fund contributions - whether to pension funds, provident funds, or RAs.

What this means in real money: If you're in a 30% tax bracket and contribute R2,000 per month to your retirement product, your take-home pay only reduces by R1,400. SARS effectively subsidises R600 of your R2,000 monthly retirement savings.

Want to see your potential tax savings?

Use the retirement contribution tax calculator at www.10x.co.za/tax-tips to see exactly how increasing your retirement contributions could lower your income tax and potentially result in a tax refund.

Disclaimer: Calculator results are illustrative only and not guaranteed. Your actual outcome will depend on your personal circumstances.

For employer funds: This tax relief happens automatically - your contributions are deducted before PAYE is calculated, so you immediately pay less tax each month.

For RAs: You claim the relief when you submit your tax return. Your RA provider will give you a tax certificate showing your annual contributions.

What happens if you contribute more than the limits?

If you contribute above the 27.5% limit (but less than the R350,000 cap), the excess contributions carry over to the next year. If you still have unused contributions at retirement, they can reduce the tax on any lump sum you take.

Tax-free growth on all investment returns

Unlike private investments where you pay tax on interest, dividends, and capital gains every year, your retirement fund grows completely tax-free. This compounds to massive differences over time.

Example: R1,000 invested privately at 10% annual return, with tax at 20% on gains, becomes R8,140 after 30 years. The same R1,000 in a retirement fund becomes R17,449 - more than double.

Lower tax rates when you retire

You eventually pay tax when you access your retirement savings, but typically at much lower rates than when you were working.

The math works strongly in your favor: If you deduct contributions at a 30% marginal tax rate during your working years, you might only pay 18% average tax on your retirement income. That's a permanent tax saving on every rand contributed.

Examples are illustrative only and assume certain tax rates and investment returns. Tax treatment depends on individual circumstances and may change in future.

Protection from creditors

Here's a benefit most people don't realise: your retirement fund money is legally protected from creditors, except where provided by law (SARS, divorce, maintenance).

How this works

A retirement fund is a separate legal entity that owns the fund assets. This means the money is separate from both your personal assets and your employer's assets. Creditors can't touch it.

The catch

This protection only applies while the money stays in the retirement fund. Once you receive a lump sum payment (either from cashing out early or taking your retirement benefit), that money loses its special protection and becomes part of your normal assets.

Real-world impact

If your business fails or you face personal financial difficulties, your retirement savings remain safe as long as you haven't withdrawn them. This makes preservation funds even more valuable - they maintain this creditor protection when you change jobs.

The preservation bonus: keeping all benefits intact

When you change jobs, transferring your retirement savings to a preservation fund or new employer fund (rather than cashing out) preserves all these benefits:

- **Tax benefits continue:** No tax on the transfer, and you keep the favorable lump sum tax rates for retirement
- **Creditor protection continues:** Your money stays legally protected under Section 37B of the Pension Funds Act, with exceptions for debts owed to SARS, and amounts due under the Divorce and Maintenance acts
- **Growth continues tax-free:** No interruption to your compound growth

What you lose by cashing out

The tax on early withdrawal can be brutal:

Only the first **R27,500** is tax-free

18% tax on amounts from R27,501 to R726,000

27% tax on amounts from R726,001 to R1,089,000

36% tax on amounts above R1,089,000

Disclaimer: Based on SARS withdrawal tax tables, subject to change. This is general information actual tax will depend on your personal circumstances.

The bottom line: why these benefits matter

The combination of tax savings, creditor protection, and tax-free growth makes retirement funds significantly more effective than saving in regular investments.

Consider the numbers

If you're in a 30% tax bracket, a R2,000 monthly contribution only costs you R1,400 after tax relief. Over 30 years, the tax-free growth alone can double your final amount compared to a taxed investment.

The creditor protection adds another layer of security that regular savings accounts and investments can't provide. Your retirement savings remain protected even during financial difficulties, as long as they stay in the fund.

These advantages compound over time. That's why maximising your retirement fund contributions - whether through your employer fund or an RA - typically delivers better outcomes than other investment options.

The tax benefits are immediate, the protection is automatic, and the long-term growth difference is substantial. Together, they make retirement products the most efficient way to save for retirement available to South Africans.

CHAPTER 7

What is your saving strategy?

Building wealth is not about how much you earn, but how much you save. If you don't save, everything you learn about financial planning, investment strategies and tax-efficient retirement products is just academic.

The world is full of stories about once highly-paid celebrities ending up broke, and ordinary people, earning average incomes, retiring as millionaires.

Those super savers are outliers of course; for most people, the goal is just to reach a state of financial independence when their passive (non-work related) income (income from a living annuity) exceeds their expenses.

To build long-term financial security, it helps if your expenses stay well below your income, with the difference set aside for saving or investing.

Try to make this a **consistent habit over time**, so that living within your means becomes part of your lifestyle rather than a short-term effort.

One approach is to save whatever money is left at the end of the month. But most people struggle to find that initial discipline, to live below their means. There is 'always next month' to start saving, which means that saving can be delayed month after month.

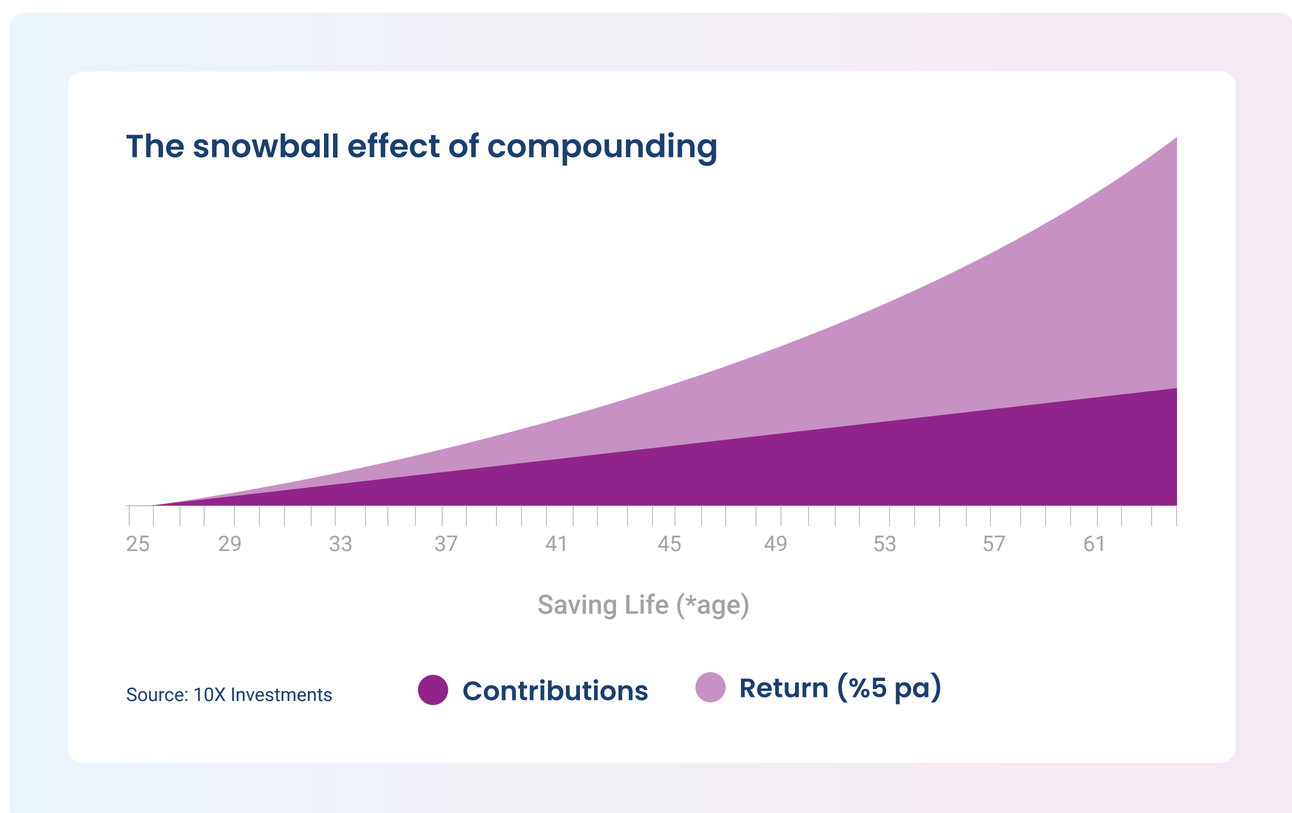
So rather than save what is left after spending, spend what is left after saving.

The miracle of compounding

The secret of these 'ordinary millionaires' is not just that they lived frugally but that they realised the miracle of compounding. Albert Einstein allegedly called it "the eighth wonder of the world", because small amounts can grow into large sums if given enough time.

Compounding simply means that you earn a return on your savings as well as on your returns, year after year. You could also call it a 'snowball effect'. A snowball rolling down a mountain will pick up more snow with every rotation and get bigger. And the bigger it gets, the more snow it will pick up, until it becomes a giant snowball.

Give your savings enough time, earning returns on returns, and your nest egg will grow into a very large number, one that might have seemed totally out of reach when you started.



Illustrative purposes only. Actual results will vary depending on investment performance, fees, legislation, and personal circumstances

The dark-purple area represents your steady annual contributions, and the light purple area is the return you earn on your accumulated savings (5% pa in this case). Early on, the return is just a tiny fraction of your total savings, and it takes quite a few years to become significant.

In the above example, returns equal contributions at around age 50, after 25 years of saving and investing. However, at the end of the period (15 years later) returns are more than double contributions.

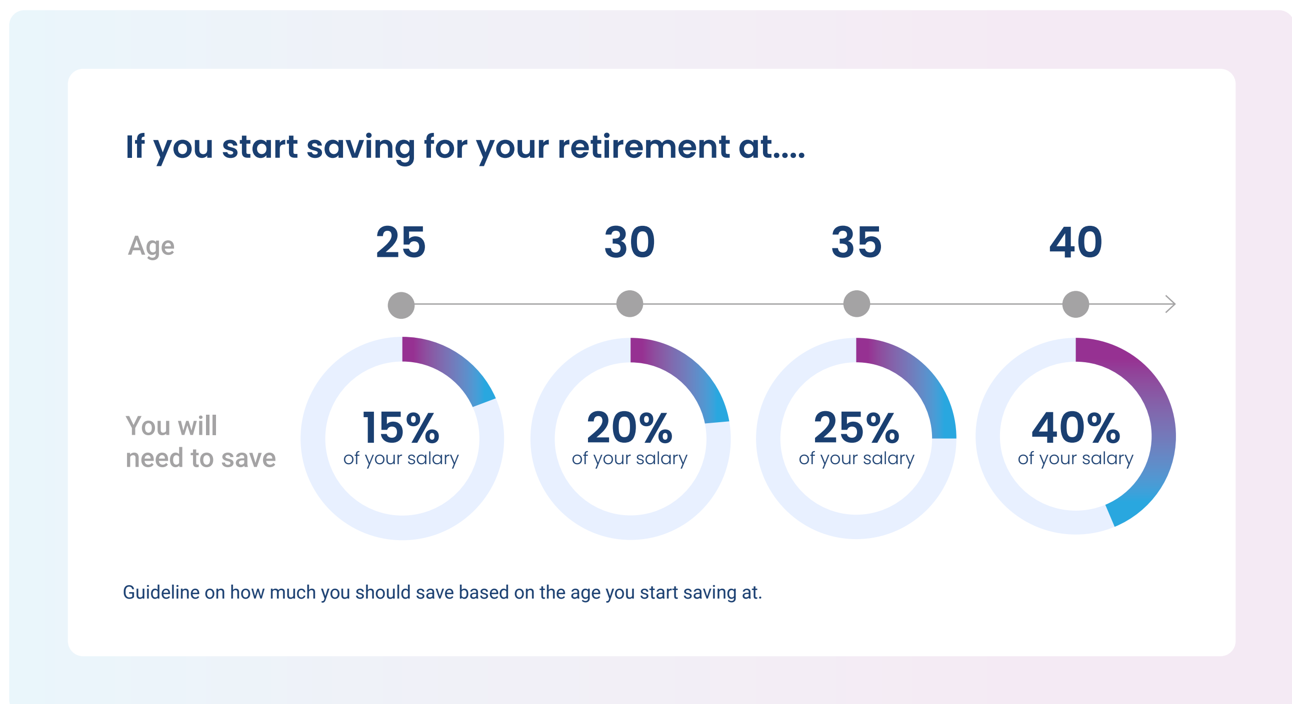
The point is, it takes some time for compounding to become a powerful force. The big acceleration happens after around 20 years. Therefore, to get the full benefit, you need to start early.

How much should you save?

The amount you need to save is expressed as a percentage of your income. This connects your current standard of living to your targeted standard of living in retirement.

There are other variables in this equation, such as how long you will be saving, your expected retirement age and your likely average net (real) investment return to retirement. If you start saving late, you will have to save more; if you expect to work into your 70s instead of 65, you can afford to save less.

The broad guideline for those starting out in their 20's is that they should save 15% of their income and invest those savings in a low cost, high equity portfolio/fund within a formal retirement fund. If you didn't start saving early you can catch up by increasing your monthly contributions.



Guideline on how much you should save based on the age you start saving at.

If you start saving only at age 40 or later, it may not be feasible to save 40% of your monthly salary. In this case, you will have to consider delaying your retirement, or significantly lowering your lifestyle expectations.

Most retirement calculators take the complexities and "guesstimating" out of retirement planning. You can play around with inputs, such as your desired retirement age and your contribution rate, to get to your desired outcome.

Three approaches to estimating retirement needs

Many people struggle to calculate how much they need for retirement. After years of working with retirees, 10X Investments' Lead Consultant Andre Tuck has observed three calculation methods that can help create initial estimates.

Important note: These are simplified calculations that provide rough starting points only. Individual circumstances vary significantly, and these estimates may not reflect your specific needs, lifestyle expectations, or market conditions.

Method 1: The Final Salary Multiple

One calculation method multiplies final annual take-home salary by 15 to estimate retirement capital needs.
Example calculation: *Someone with a R25,000 monthly take-home salary (R300,000 annually) would calculate: 15 × R300,000 = R4.5 million*

This assumes maintaining a similar lifestyle. Those planning significant lifestyle changes might use different multiples (higher for more travel/hobbies, lower for downsizing).

Method 2: The Income-to-Capital Ratio

Another approach assumes approximately R1 million in capital generates around R5,000 monthly income at sustainable drawdown rates.
Example calculation: *To generate R25,000 monthly income would require approximately R5 million (5 × R1 million)*

This calculation assumes conservative drawdown rates aimed at capital preservation.

Method 3: The Monthly Needs Multiplier

A third method multiplies desired monthly income by 300.
Example calculation: *R25,000 monthly need × 300 = R7.5 million*

Understanding the limitations

These calculations:
- Don't account for other income sources (rental income, part-time work)
- Assume certain investment returns and life expectancies
- May not reflect your specific tax situation
- Don't consider legacy goals or medical contingencies
- Can vary significantly based on market conditions

Use these as starting points for your own research, not as definitive answers. Online calculators such as the 10X Retirement Annuity Calculator that factor in your specific age, current savings, and expected returns provide more personalised estimates.

Disclaimer: Calculator results are illustrative only and not guaranteed. Your actual outcome will depend on your personal circumstances.

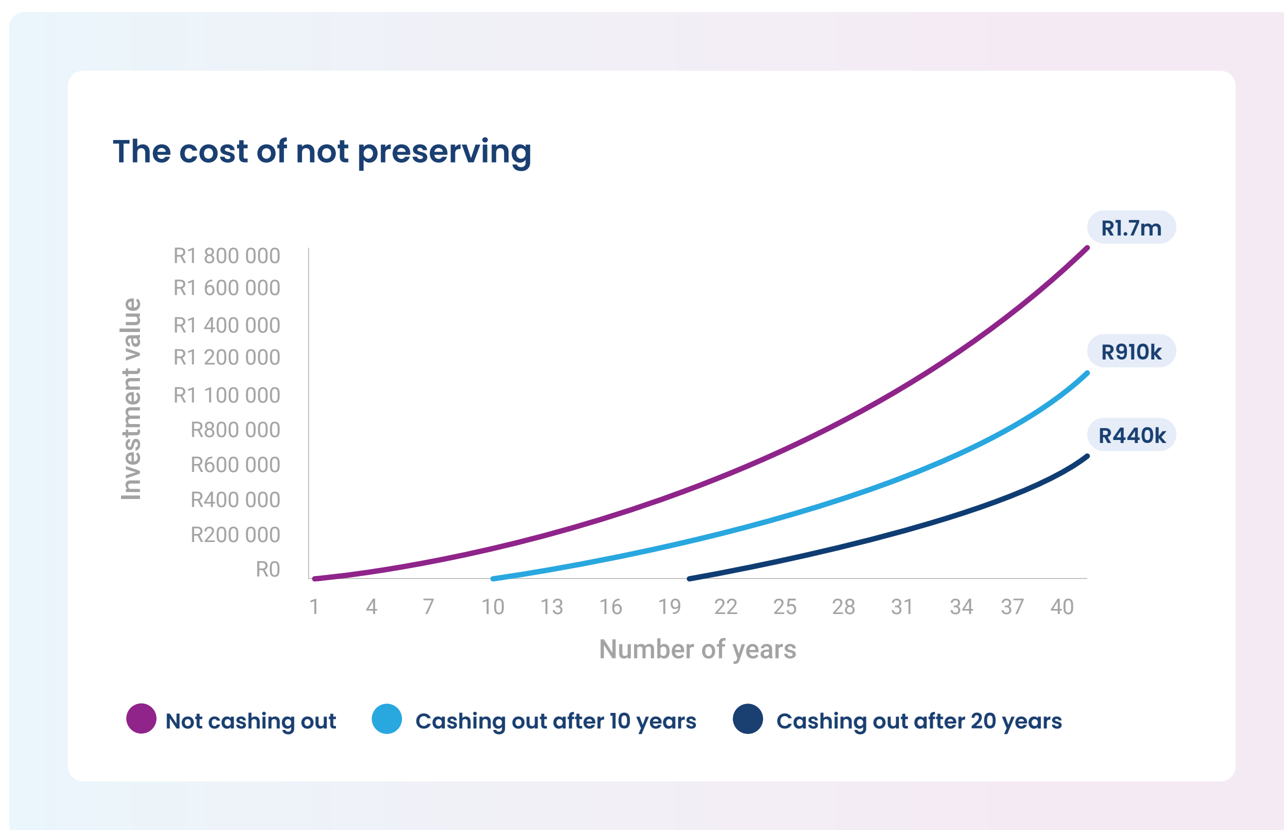
Preservation

When you change jobs, you have the option to preserve your retirement savings. You can transfer your benefit tax-free to your new employer's fund or to a preservation fund. But you also have the option to cash out.

According to various industry surveys, between 70% and 80% of employees don't preserve their retirement savings when they change jobs. Younger employees are especially at risk because they believe they have time to make up for dipping into their pension.

It is practically impossible to make up the shortfall. Fig 5 above bears this out. Investing R1,000 per month (growing at 1% pa) for 40 years, earning a net real return of 5% pa, those savings would grow into R1,7m. Cashing out after 10 years, and starting over would reduce the pay-out to R901k (47% less). Cash out after 20 years, and start over, and your retirement income will only be 25% of what it could have been.

Again, this has to do with compounding. If you cash out your retirement fund when you change jobs, you don't just lose out on the contributions already made, but also the return you would have earned on those savings, compounded for 30 years (or even 50 years, if you buy a living annuity at retirement).



Illustrative purposes only. Actual results will vary depending on investment performance, fees, legislation, and personal circumstances.

CHAPTER 8

Investment strategy
How to maximise your return

Your final retirement fund value is determined by three variables:

Your savings

The **more** you save the higher your final investment

Your savings term

The **longer** you save the higher your final investment

Your real investment return

The **higher** your real investment return (after fees and inflation) the higher your final investment

We look at the types of investments, asset allocation, managing investment risk and the difference between active and passive management.

Types of investments

Although there appear to be myriad types of investments most, if not all, your retirement savings money will be invested in the plain-vanilla variety: company shares, bonds, property shares and cash.

Shares (domestic and foreign) and property are classified as growth assets whereas bonds and cash are regarded as defensive assets.

Note that there are other, less frequently used asset classes, including private equity (effectively unlisted shares) and commodities (such as oil and gold). These are beyond the scope of this guide.

Equities (the stock market) have historically generated the highest real returns over time – approximately 7% p.a. over the past century. The high return compensates investors for the higher uncertainty (risk). Share prices move daily and can change significantly (up or down) over very short periods. You are never sure what you will realise on your share investments until you sell them.

Property shares earn mainly rental income and have historically delivered similar returns to company shares. Long-term lease agreements with escalation clauses deliver a more predictable return than other businesses, but these investments are still subject to the vagaries of the economic cycle.

The long-term real return from bonds (money lent to the government or other entities) has been considerably lower over the same period (around 1-2% pa), but with lower variability than shares over the short term (one year or less). In other words, the short-term return from bonds is far more predictable than that of equities.

Cash returns (in saving or money market accounts) are even lower over time, typically generating a real return of only around 1% pa Your risk with cash is very low – you can be almost 100% sure you will receive all you put in, plus accrued interest. This certainty enables investors to preserve capital in the short term.

Asset allocation explained

Asset allocation is the key driver of your long-term portfolio/fund return. In fact, over the long-term, asset allocation is responsible for nearly 100% of your total investment return.

Although there are seemingly an infinite number of different asset mixes, your portfolio/fund will typically fall into one of four broad categories:

High Equity
(around 75% in growth assets)

Medium Equity
(around 60% in growth assets)

Low Equity
(around 30% in growth assets)

Defensive
(around 10% in growth assets)

Historical returns are shown for illustrative purposes. Future returns will differ and may be lower or higher. Investments carry the risk of capital loss.

Regulation 28 of the Pension Funds Act

Regulation 28 of the Pension Funds Act limits the extent to which retirement funds may invest in individual assets and asset classes. The main purpose is to protect members' retirement provision from the effects of poorly diversified investment portfolio/funds. This is done by limiting the maximum exposure to different assets and asset classes.

The main consequence for retirement fund members is that no more than 75% of their portfolio/fund may be invested in company shares (local and foreign). The fund may, however, also invest up to 25% in property shares.

The other significant restriction is that no more than 45% of the portfolio/fund may be invested offshore (plus another 5% in Africa).

Investment risk

In deciding on the appropriate asset mix for your portfolio/fund, risk is an important consideration. However, you must define your risk correctly. All too often, risk is discussed in the context of your short-term tolerance of losses and the variability of short-term asset returns.

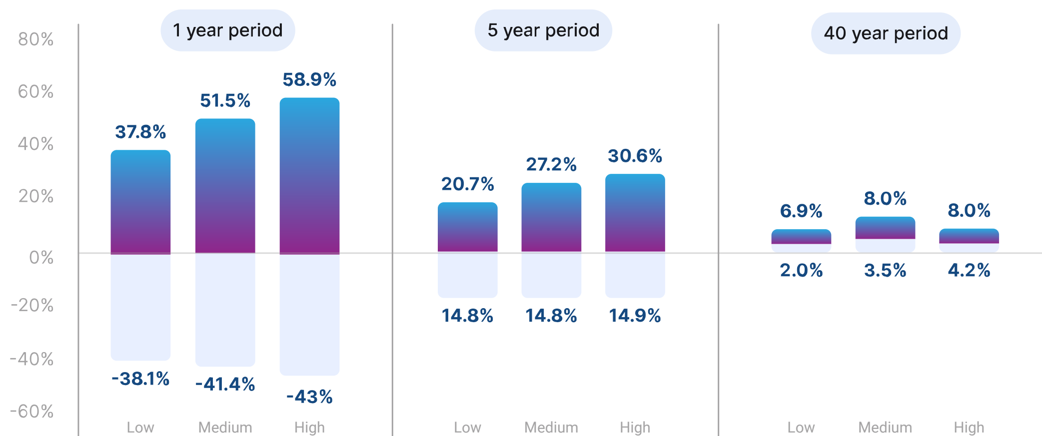
In the context of a life-long retirement plan, that is not helpful. As a long-term investor, you need to define investment risk in the context of your investment time horizon.

From that perspective, your two major risks are:

- Failing to generate a high real return over most of your investment term.
- Failing to preserve capital in real terms over the last phase of the investment term.

The figure below shows the historical range of returns for high, medium and low equity portfolio/funds in the South African context (with a 25% offshore allocation) over time horizons of 1, 5 and 40 years. The returns shown are real (i.e.after-inflation).

The historical range of returns
for high, medium and low equity portfolio/funds*



* In a South African context (with a 25% offshore allocation) | Source: Morningstar, 10X Investments

The 1-year returns from 1900 to 2018 show the historic range of returns for high equity portfolios/funds are significantly more volatile than for low and medium equity. The worst year historically for a high equity portfolio/fund was -43%, compared to -38.1% for low equity. Hence the need to reduce the allocation to volatile growth assets when managing short-term risk.

The range of return **over 5-year periods** shows that high equity portfolios/funds have the potential to generate significantly higher returns without presenting much more volatility risk than a low or medium equity portfolio/ fund. As the risk for long-term investors is to earn an inadequate return, you are often best served with investing in a high equity portfolio/fund if your time horizon is longer than five years.

Over 40 years, high equity portfolios/funds have generated the highest returns, with less downside risk than low or medium equity portfolio/ funds. We say this because the lowest return for a high equity portfolio/fund over this period (4.2%) is higher than the lowest return from either the low (2.0%) or medium equity (3.5%) portfolio/fund managing short-term risk.

Illustrative purposes only. Actual results will vary depending on investment performance, fees, legislation, and personal circumstances.

Maximising your average investment return with life-stage investing

As a long-term investor, it's common to see periods of economic cycles and short-term market volatility.

Historically, equities have tended to deliver higher real returns than other asset classes over long time horizons, which is why they often make up a significant portion of retirement portfolio/funds (subject to the limits of Regulation 28 of the Pension Funds Act). If you plan to select a guaranteed annuity (see chapter 6), share market volatility becomes an important consideration during the last five years prior to retirement. You cannot afford to lose 30% of your retirement asset in a market crash near the end, as you do not have enough time to recover. You would, therefore, look to steadily reduce your equity market exposure over the last five years to retirement.

Some retirement funds, like 10X, use a so-called life-staging approach to transition your portfolio/fund from growth to defensive assets and protect you from volatility risk near retirement. However, if you plan to select a living annuity, you will remain invested in the markets after retirement. You will still be a long-term investor, and your focus will then be on mitigating the risk of outliving your savings. You would then look to maximise your long-term investment return by remaining invested in a high equity portfolio/fund.

Diversification

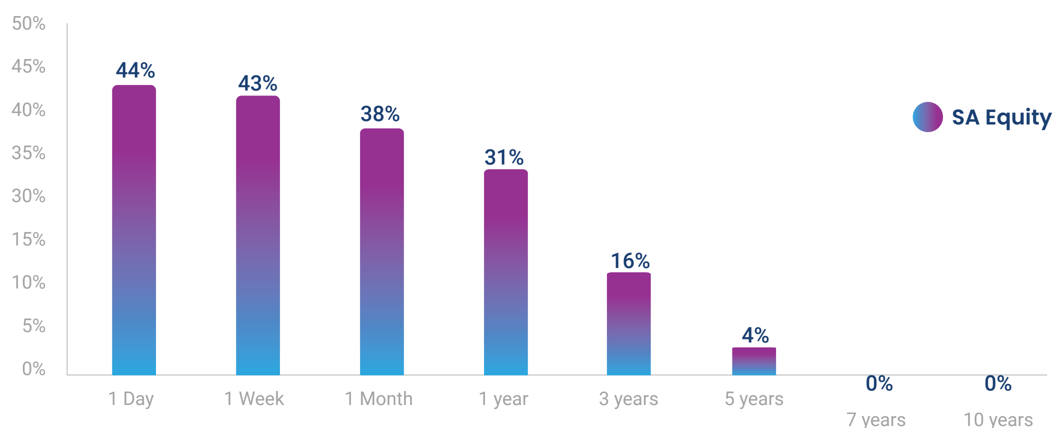
Don't put all your eggs into one basket, the saying goes. That is never truer than with retirement investing, because you don't want your retirement income to be tied to the fortunes of just a few investments. Diversification has been called the one free lunch for investors because a well-diversified portfolio/fund, regularly rebalanced, will on average yield a higher return, with less volatility, than a concentrated portfolio/fund. In practice, a diversified portfolio/fund means that you will invest in a portfolio/fund with different asset types (i.e.company shares, property shares, bonds and cash). Within each asset class, you will hold a broad variety of securities. For example, you will want to hold a large portfolio/fund of shares, which will all react differently to market developments.

That is achieved by owning shares that operate in different sectors of the economy, or in different parts of the world, that are exposed to different currencies, or that respond to different investment fashions. Your typical South African multi-asset retirement portfolio/fund offers exposure to local and international shares, local and international property, local and foreign bonds, and local and international cash.

Don't let short-term market fluctuations distract you

Your investment objective is to maximise your investment return over your investment period, in all reasonably expected market environments, to give yourself the best chance of achieving your retirement goal. Your focus must be on the long-term return, not on the return over the next month or the next year. Many long-term investors make the mistake of attaching great importance to short-term results (anything less than five years). Short-term results are largely random, which is why no one can reliably predict short-term investment returns.

Unfortunately, you are informed daily of short-term returns, by way of daily stock market reports, quarterly economist and fund manager predictions and annual fund manager rankings. While these have zero predictive value, they have a huge psychological impact on how people invest their long-term savings. You risk making poor long-term investment decisions if you make decisions based on short-term investment returns. As your time horizon increases, the chance of negative returns in SA shares (public equity) decreases as displayed in the graph below.



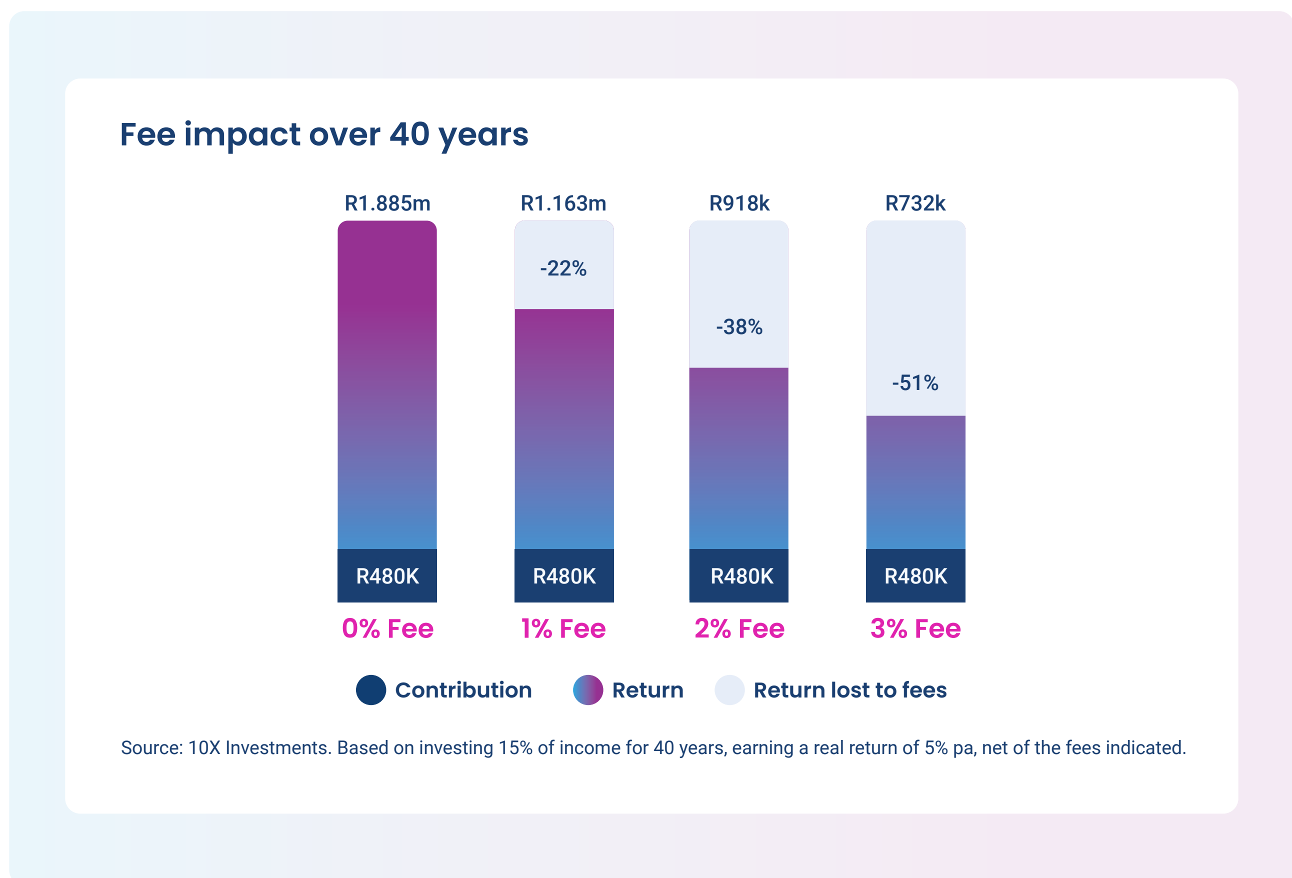
Illustrative purposes only. Actual results will vary depending on investment performance, fees, legislation, and personal circumstances.

Fees: the tyranny of compounding costs

There is often a big difference between the investment returns quoted on retirement fund investment reports and your portfolio/fund return, as the reports don't account for the fees paid.

Fees can be incurred for advice, administration, investment management, investment performance and platform fees. The fee component of an investment strategy has a significant impact on whether the long-term investment objective will be achieved. This is compounding working against you, and it is just as powerful in putting the brakes on your retirement income.

Although a fee difference of 0,5% or even 1% p.a. between different investment portfolio/funds may sound small (especially during times when markets perform well and returns are high), the long-term impact of excessive fees may well be the decider between reaching your objective or not.



Source: 10X Investments. Based on investing 15% of income for 40 years, earning a real return of 5% pa, net of the fees indicated.

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The graph above illustrates the dramatic impact of fees on long-term investment growth. The calculations assume an investor contributing R1,000 per month towards a retirement fund (40 years). The investment delivers a real (after-inflation) return of 5% pa over the investment period. The grey portions of the bar show that in each of the four fee scenarios (0% pa to 3% pa) the investor contributed the exact same amount (R480k) over the 40 years.

Without fees, the investor would have accumulated a total value of R1.885 million in savings (in today's money). But the payout reduces dramatically as the annual fee increases. On the right side of the graph, the investor contributing R480k over the same 40-year period would have received R732k, less than half the gross return generated by the investment.

Investment style: the active versus passive debate

Finally, a word on investment style. Investors can choose between two broad styles of investing: indexing and active management. These two styles have resulted in significant industry debate; it's an emotional subject, with strongly entrenched views on both sides.

An index fund tracks the performance of a pre-determined index, such as the FTSE/JSE All Share Index, by mirroring the composition (share make-up) of that index. The investment earns the return generated by that index, no more but, importantly, also no less.

The alternate, an actively-managed fund, will endeavour to do better by deviating from the index composition, underweighting (or avoiding) some shares and overweighting others. This is known as 'stock-picking'.

Because indexing is an automated process that does not require expensive fund managers and research analysts, it is cheaper than active management. The cost saving accrues to investors, who get to keep more of the investment return.

Compounding these cost savings over many years, the long-term investment outcome improves dramatically.

Individual actively-managed funds do beat the market ever so often, but, empirically, only around 10% manage to do so over longer time periods, after taking account their higher fees. With no way to identify these winners beforehand, the odds of coming out ahead with an active manager are quite low.

Index investors also avoid the risk of choosing a fund manager who falls well short of the benchmark return and impairs their potential retirement income.

It's for these reasons – high active management fees and the risk of severe underperformance – that investors globally choose index funds in ever greater numbers.

CHAPTER 9

You're retired, now what?

Understanding which products will pay you a regular income in retirement

Let's imagine for a moment you have successfully implemented your savings plan and reached your retirement goal.Congratulations! You now need to figure out what to do so that you can earn an income in retirement.

You can choose between two annuity products to pay you a regular income in retirement. The first is an insurance-type product called a guaranteed annuity and the second is an investment-type product called a living annuity.

Living annuities

A living annuity (LA) is more flexible than a guaranteed annuity and therefore gives you more control over your investments.

A living annuity allows you to:

- Choose the assets you want to hold.
- Choose the income you wish to draw every year (within limits).
- Leave an inheritance (the remainder of your capital) for your nominated beneficiaries when you pass away.

However, with this flexibility comes greater risk and responsibility as the onus is now on you to secure an adequate income for life. If you make poor decisions, you may very well outlive your savings.

One of the big decisions you will have to make is what percentage of your total investment you will draw annually as an income. This is known as your draw-down rate. Legally this must be between 2,5% and 17,5% of your remaining capital each year.

The difference between a Guaranteed Annuity and a Living Annuity.

Your retirement objectives	Guaranteed annuity	Living annuity
Inflation protection	✓*	Not guaranteed
Longevity protection	✓	Not guaranteed
Flexibility to change your income or investments	✗	✓**
Leave an estate	✗***	✓

* Assuming that the guaranteed annuity is inflation-linked
** Subject to legislation and regulatory limits on income of 2.5% to 17.596
*** Some policies give you limited estate protection

Guaranteed annuities

The guaranteed annuity (GA) is an insurance product (policy). It provides you with a specified monthly pension for the rest of your life. You must purchase this annuity from a life assurance company. It effectively insures you against longevity risk (the risk that you outlive your savings) as well as investment risk (earning insufficient return on your capital to pay your pension). The full pension is paid until you die.

The drawback is that your capital dies with you, and no money passes on to your heirs. That is your risk: you (or, rather, your heirs) forfeit your savings in the event that you die sooner than expected (unless a guarantee or life assurance is built into the contract).

Annuity product features and tax treatment are subject to change. The most suitable option depends on personal circumstances, consider obtaining independent advice before making a choice.

Final thoughts:
Your retirement journey starts today

Planning for retirement can feel overwhelming, but by breaking it down into clear steps, you've already started taking control of your financial future. The earlier you begin, the more powerful compounding and disciplined saving can be. And even if you're starting later, making changes today can still improve your outcome.

Remember:

- Your retirement plan is personal. There is no "one-size-fits-all" number.
- The key drivers of success are how much you save, how long you save, and the fees you pay.
- Retirement funds offer unique tax and legal benefits that help grow and protect your money.

At 10X, we believe retirement planning should be simple, transparent, and cost-effective. If you'd like to learn more about how the **10X Retirement Annuity** or other retirement products could fit into your plan, speak to a retirement expert today.

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