Publication: The Weekly (Free State)
Date: 10 Mar 2017
Page: 17

How SA can avoid retirement cliff fall

From page 14

The bulging numbers of retiring people is a precursor for a host of socioeconomic challenges. These include a rising pension bill for an already pressured public purse. About 17 million South Africans, a third of the country's total population, depend on array of social grants. Of these, just over 3.1 million receive the older persons grant. This number is expected to rise to seven million by 2030.

While the country is seeing a rising number of retiring people the taxpaying base is not growing and unemployment numbers remain stubbornly high.

The number of individual taxpayers decreased by 13 percent from about 5.5 million during the 2013/14 tax year to about 4.7 million during the 2014/15 tax year. I estimate that – based on the average decline of seven percent in 2013/14 and 13 percent in 2014/15 – the number of assessed taxpayers will further decrease by 10 percent in the 2015/16 tax year.

The rising retiree numbers will also have a negative impact on economic activity. This is based on the assumption that people spend less in retirement than they do while working.

The 2016 Tax Statistics report indicates that in 2014 the average taxable income of assessed taxpayers aged 65 and older only increased by 3.5 percent- compared to the growth rate of 11.7 percent of individuals younger than 65 years.

Rising retirement numbers are also known to result in a significant loss of expertise, sometimes referred to as the "brain drain". The problem becomes more acute when the loss of skill due to retirement exists alongside a poor education, skills feeder-system.

The situation calls for innovative solutions from different stakeholders – employers, the financial industry and the public sector. To face the loss of skills challenge South Africa should allow for the extension of working tenure of retiring workers. The country should look at raising the retirement age to, say,70.

But this is a double-edged sword, as it will only compound South Africa's already severe unemployment rate of 26.5 percent. But not raising the retirement age will have serious ramifications for the majority of lower-income South Africans who don't have a private pension fund.

Perhaps the answer lies in between. Organisations could create a type of mentorship programme where older workers could transfer much needed skills and experience to a younger generation. This wouldn"t only address the country's high unemployment rate, but also the mass of unskilled, young individuals.

Another option to consider is phased-in retirement, whereby the person entering into retirement isn't permanently on the books of the company, but is rather retained as a contractor.

Retirees should also be encouraged to embark on a second, self-employed career to keep cash-flow going. Ultimately, the idea that everyone is willing or able to retire at 60 or 65 is an illusion and one that could result in the Baby Boomer generation going bust.

Steenkamp holds a postgraduate diploma in financial planning from the University of Stellenbosch Business School.