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How SA can avoid retirement cliff fall

OPINION

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In 1881, Otto von Bismarck, the first chancellor of united Germany, designed the concept of "retirement". The ideal time, he said, would be 70 years of age. Back then, people simply didn't retire. If you were alive, you worked. It was a revolutionary idea given that the life expectancy of a German worker was around 45.

Bismarck, and others who followed suit, didn't expect workers to outlive their retirement savings. But with the phenomenal advances in medicine, increased longevity is now a reality which poses a serious welfare challenge.

The Baby Boomers retirement conundrum is a story which has been widely told. A largely American concept, Baby Boomers refers to a generation of people born in the 1940s to the early 1960s. The term was coined because the US saw a dramatic increase in the number of births after World War II – quite literally a baby boom. This generation has reached the traditional retirement age of 60 to 65 and yet are reluctant or unable to retire.

The effect of this is twofold: individuals are living longer which results in higher medical and living expenses. And countries have to plan for the increased number of older people while the millennial generation (people born in the 1980s to 2000s) is faced with looking after ageing parents.

In a developing economy such as South Africa, this challenge is even more pronounced. Firstly, the country faces a bigger bill to support a growing older population. The number of people reaching retirement age is increasing.

Although there's no statutory retirement age, the accepted norm is that people retire between the ages of 60 and 65. People over the age of 60 with no other means of financial income qualify for a monthly state pension (also called an older persons grant).

Secondly, South Africa suffers from a poor savings culture. The implication is that South Africans are increasingly relying on credit to provide for themselves and their families' basic needs. Many people are living beyond their means and getting caught in the debt trap. Ultimately, the burden on government's limited resources increases as individuals become more reliant on public services when they enter retirement age.

South Africa's population is ageing, with eight percent of the total aged 60 or older. This percentage has been rising, and will continue to do so as life expectancy increases.

Life expectancy in South Africa had declined between 2002 and 2005 as a result of HIV/Aids, but the expansion of health programmes to prevent mother to child transmission as well as access to anti-retroviral treatment have contributed to an increase in life expectancy since 2005.

Although the provincial life expectancy rates vary, the overall country life expectancy rates have been climbing steadily again, and now stand at 59.7 years for males and 65.1 years for females.

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