About the salary replacement ratio

Most of us save for retirement in some form or another.

All of us hope for a dignified retirement. Instead of just hoping for the best, plan for retirement using the salary replacement ratio. This ratio expresses the pension that will be received on retirement as a percentage of pensionable salary in the last month before retirement.

The table below reflects this ratio, based on certain assumptions.

It is important to note that contributions are after risk premiums and other costs, i.e. it is the actual portion set aside for retirement. Total contributions to a fund could be 17% for example, where 3% may be used to pay for death and disability cover, and administration and other costs.

An important assumption impacting the salary replacement ratio, is the number of years that the member contributes to a retirement fund.

	Net contribution towards retirement (as % of pensionable salary)					
Real Investment Return (after fees)	8%	10%	12%	14%	15%	16%
5%	43%	54%	65%	75%	81%	86%
4%	35%	45%	54%	63%	67%	72%
3%	30%	38%	45%	53%	56%	60%

The table is read as follows: a member that has been invested in a portfolio (or combination of portfolios) that yields 4% above inflation (real investment return after fees) and who has contributed 14% of pensionable salary to his/her member share in a retirement fund should achieve a replacement ratio of 63% of pensionable salary. The first pension should be 63% of the last pensionable salary.

Thirty years of contributions have been assumed until retirement age 60. Life expectancy after retirement has been assumed as 20 years. Where a member changes jobs, it has been assumed that any accumulated fund credit is preserved in a preservation fund and not eroded by a cash withdrawal.

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On retirement your capital can be split in two parts: 1/3 can be paid as a tax-free lump sum and 2/3 can be used to generate regular pension payments. It was assumed that the 1/3 of the retirement capital is also used to generate the regular monthly income.

Four factors ensure a dignified retirement:

- Net contributions and investment returns must be balanced. Where a moderate risk portfolio is chosen that yields on average 4% above inflation (after fees), net contribution rates should not be lower than 13%.

  Use the table to establish where you or your fund lie. Make changes while you still can.

- Pensionable salary should not be significantly lower than total remuneration package. Your standard of living is largely a function of your total remuneration. It is the pensionable salary however that determines the pension you will be earning one day.
- Retirement saving is a long process. The longer you save for retirement, the better. As a minimum it needs to be 30 years.
- Do not access retirement funds when changing jobs, no matter how tempting.

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Intermediaries

- Visit www.rfsol.com.na/benchmark for a list of intermediaries.

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May 2019