INDUSTRY VIEWS

Retirement tips to ensure a comfortable retirement

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If statistics are anything to go by, many South Africans delay saving for retirement. When we are young, retirement seems just a speck in the future, and we are lulled into thinking time is on our side. Other life expenses seem to be more important – a new car, the deposit for your first home, a wedding, a baby or even a holiday. However, in most instances compulsory retirement savings in an employer's pension fund or retirement annuity are not enough.

While the best course of action is starting as early as possible and saving for as long as possible, there are still options available to you if you find your retirement is suddenly around the corner and you realise you haven't saved enough. It is never too late to play retirement catch-up.

Use your time wisely

Investors often think retiring comfortably is only about the amount of money invested. However, the period we are invested for is even more important. Saving for retirement can be summarised as easily as this: *The earlier you start, the less you need to save monthly*. The catch is just as easy: it's not just about catching up on the *amount of savings* you have missed out on in the past couple of years (which in itself is a challenge). It's really about catching up on the *compounded returns* you have missed out on.

Let's look at an example to illustrate this. The table below shows that if you want to retire with R1 million at age 65 and you start saving at age 25, you'll need to save R180 per month. If you want to end up with R1 million at age 65 but only start saving at age 45, however, you will need to put away a far greater amount – almost R1 400 per month! The longer you postpone saving, the more you need to save, but the table also shows that even at 45 and older, it is not too late to start.

Table 1: How to save R1 million by age 65

Age at which saving starts	Years to retirement	Monthly investment (starting amount)	Total contributions	Growth on investment	Total investment value at age 65
25	40	R180	R86 481	R913 519	R1 000 000
30	35	R294	R123 573	R876 427	R1 000 000
35	30	R485	R174 516	R825 484	R1 000 000
40	25	R811	R243 245	R756 755	R1 000 000
45	20	R1 392	R334 141	R665 859	R1 000 000
50	15	R2 510	R451 757	R548 243	R1 000 000
55	10	R5 003	R600 409	R399 591	R1 000 000
60	5	R13 061	R783 686	R216 314	R1 000 000

Source: PSG Wealth. Assumptions: 10% return. Inflation is not taken into account.

Quantifying the impact of additional savings

What does an additional R1 million buy you at retirement? An additional R1 million at retirement adds an extra R4 100 to your monthly income at retirement (assuming a withdrawal rate of 5% from a living annuity). If you ask any retiree, they'll tell you that will make a vast difference to your standard of living when you're retired! (And when you remember the current old age pension in South Africa is R1 700 a month, the income generated from a relatively small additional lump sum suddenly seems a lot more attractive.)

An astounding example from personal experience

A couple approached us a while ago to assist them with their retirement planning. Both were teachers by profession and were now retiring. They made a conscious decision to save at least 25% of every pay cheque since their first one. They had the maximum exposure to growth assets throughout all market cycles. How much did this couple manage to save? The answer is an astounding R40 million!

We've already seen that starting early is important. But what is the impact of compound growth if you were to invest the same amount monthly but over different periods of time? In the table below, we use an example of a flat investment amount of R5 000 p.m. invested over different periods with an assumed rate of return of 10% per year.

Table 2: Saving R5 000 a month

Age at which savings start	Years to retirement	Monthly investment (starting amount)	Total contributions	Growth on investment	Total investment value at age 65
25	40	R5 000	R2 400 000	R25 351 741	R27 751 741
30	35	R5 000	R2 100 000	R14 893 955	R16 993 955
35	30	R5 000	R1 800 000	R8 514 217	R10 314 217
40	25	R5 000	R1 500 000	R4 666 624	R6 166 624
45	20	R5 000	R1 200 000	R2 391 296	R3 591 296
50	15	R5 000	R900 000	R1 092 220	R1 992 220
55	10	R5 000	R600 000	R399 319	R999 319
60	5	R5 000	R300 000	R82 806	R382 806

Source: PSG Weatlh. Assumptions: 10% return. Inflation is not taken into account.

Calculating how much you need

The general 'rule of thumb' is that your monthly income during retirement should be at least 75% of your last monthly pay cheque to be able to retire comfortably. This is assuming that you don't have large outstanding debts (like an outstanding mortgage on your house, large vehicle debt, etc.). This in turn implies that you will have fewer expenses and more disposable income. The fact is, however, that we should make provision to live much, much longer than we may typically expect – due to medical advancements, technology improving lives, and escalating medical costs. This could mean that a 90% 'replacement ratio' (instead of the commonly accepted 75%) may be more reliable for planning purposes.

An example of how much you'll need to retire comfortably

Say you retire at age 65 with a monthly income of R50 000 (R600 000 per year). You will now need 90% of that (which would be R45 000 p.m. or R540 000 p.a.). Every year after retirement, this amount required will increase by about 6% (catering for inflation) and your retirement capital grows by 9%. Assuming you live until age 100 this means you will need to have saved more than R12.2 million by the time you retire.

Reaching a bold retirement goal

The table on the next page shows the monthly contribution you would need to make to reach a bold retirement target of R20 000 000. The message is clear: if you start at age 35 or earlier, it is much easier to achieve this target than starting later.

Table 3: Getting to R20 million

Age at which saving starts	Years to retirement	Monthly investment (starting amount)	Total contributions	Growth on investment	Total investment value at age 65
25	40	R3 603	R1 729 621	R18 270 379	R20 000 000
30	35	R5 884	R2 471 467	R17 528 533	R20 000 000
35	30	R9 695	R3 490 328	R16 509 672	R20 000 000
40	25	R16 216	R4 864 898	R15 135 102	R20 000 000
45	20	R27 845	R6 682 824	R13 317 176	R20 000 000
50	15	R50 195	R9 035 147	R10 964 853	R20 000 000
55	10	R100 068	R12 008 174	R7 991 826	R20 000 000
60	5	R261 229	R15 673 729	R4 326 271	R20 000 000

Source: PSG Wealth. Assumptions: 10% return. Inflation is not taken into account.

Your retirement saving checklist

To be part of the 6% of South Africans that are able to retire comfortably, you need to actively plan for a better retirement. Apart from starting as early as possible, here is a list of steps you can take right now to maximise your retirement savings:

1. **Save more.** Cut back on expenses. Drop your standard of living. Increase your retirement annuity by R1 000 per month by means of a debit order. An extra R1 000 into your retirement annuity will go a long way and it won't affect your standard of living too much on a salary of R30 000 or more per month.

2. **Allocate a higher percentage to growth assets (like equities).** A rough rule of thumb is taking 100 (age to which you will live) and deducting your current age from it. The result is the percentage of exposure you should have to equities. So, at age 40, you should have 60% in equities; at age 60, you should have 40% in equities, etc. This method helps to manage risk – you can't really afford a 20% market crash at the age of 70, while you are far more likely to be able to do so at age 45.

3. **Consult a professional financial planner or wealth adviser.** You don't want to make an uninformed decision at this stage or with such an important part of your financial planning.

4. **Preserve your retirement funds.** Never take the option to cash out your pension benefits when you change jobs or get retrenched. Don't be tempted to use your retirement savings for anything other than retirement.

5. **Keep tax top of mind.** It's important to make use of all the tax benefits available. Be tax savvy: all contributions to retirement annuities, pension funds or provident funds are tax deductible up to 27.5% of your taxable income, up to a maximum of R350 000 a year.

6. **Work for longer.** Because we are living for longer, it makes sense to continue working for longer – even if it is part-time after 'formal' retirement. It is becoming common practice for people to continue working into their seventies. Even if we will be working for longer, it makes sense to save more money than what we need, rather than to have too little to live by.

> I don't try to jump over 7-foot hurdles. I look for 1-foot hurdles I can step over.
>
> – Warren Buffet

Successful investing is about accumulating easy wins and watching them compound over time. Small incremental returns, day after day, month after month. Do the smart thing and be savvy with your retirement savings.