Retirement CHECK

IT'S JUST ONE OF THOSE THINGS. LIKE BRUSHING YOUR TEETH – YOU HAVE TO DO IT. EXPERTS AGREE: SAVING FOR YOUR RETIREMENT IS A NON-NEGOTIABLE, LONG-HAUL COMMITMENT. AND BY STARTING SOONER RATHER THAN LATER, YOU'LL BE SMILING WHEN THE TIME COMES TO CASH IN

Words ***Ciska Thurman***

In 2015, the World Bank reportedly called South Africans the biggest borrowers in the world. At the time, 86% of the population had borrowed money in some or other form. More recently, our National Treasury revealed that only 6% of South Africans are in the position to retire 'comfortably' (able to retain their standard of living). We are a nation in debt, with little left to put towards retirement savings.

THE POWER OF TIME AND COMPOUND INTEREST

Sonja Linde, Gary Forster and Caron Ehlers are certified financial planners (CFPs) who strongly agree: The sooner you start stockpiling, the better. 'Not only for building your retirement fund, but also to foster a healthy habit of saving,' adds Sonja. Gary gets real: 'If you only start your retirement planning at age 40, and you intend retiring at age 65, you only have 300 pay cheques to save for your retirement.' This is where the power of time and compound interest is paramount. Caron illustrates how valuable time is in the market using twin sisters Angelique and Mandy (see next page) as an example.

At age 65, who is better off, in monetary terms? Angelique saved for 10 years, with no increases to her premiums, then let the amount grow for 30 years. At age 65, she had R6.7 million. Whereas Mandy saved for 30 years, with 6% increases, and ended up with only R5.1 million. Because Angelique started 10 years earlier – and even despite her stopping at that point – her savings still grew more (due to timing and compound interest) than her sister's did. 'The secret is to start compulsory saving – money you cannot touch until retirement age – as soon as you earn your first pay cheque,' reiterates Caron.

BUT HOW MUCH IS ENOUGH?

This is where the expertise of a CFP will truly serve you. Individual circumstances (Are you salaried or self-employed?) also include retirement goals (Travel plans/hobbies?), and notions of retirement (At 60 or 65? Entirely or partially?). The gold-watch-standard of retirement, of working loyally for one company your whole life in return for a handsome pension payout, is already a thing of the past. Today,

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Angelique

- Starts saving at **25**
- Make payments for 10 years of R1 000 per month (no increases)
- Aggressive portfolio (6% real return)
- Stops payment at age 35

Mandy

- Starts saving at **35**
- Make payments for 30 years of R1 000 per month (increasing annually)
- Aggressive portfolio (6% real return)
- Continues payment until age 65

retirees are embarking on new ventures and directions, even creating new income streams to supplement payouts (from a lifetime of dutiful compulsory saving).

Once these various vectors are identified and processed within a time frame (of remaining pay cheques), you will reach a figure that should become the baseline of your retirement stash. In more specific terms: 'It is important to save at least 15% of your income for about 40 years, in order to build a healthy retirement pot,' advises Gary. And in investment terms, Caron adds that, 'For every R1 million capital you have invested, you can withdraw a monthly income of approximately R6 000 (and that capital should last for about 20 years). In other words, if you need R30 000 per month after retirement, you would need to have invested approximately R5 million worth of capital over your working lifetime in order to sustain yourself.'

SAVINGS VEHICLES

Caron and Sonja outline the two major ways to save for your retirement:

- Compulsory monies are saved via typical retirement products such as retirement annuities, pension or provident funds. These products are often combined into a Retirement Income Option, which is designed to pay you a 'salary' when you retire. Getting expert advice from a CFP is imperative to ensure it is most suited to you.
- Discretionary monies (savings accumulated throughout your lifetime) are built up in other investment products such as share portfolios, unit trusts and tax-free savings accounts. These funds are typically available to use for your lump-sum purchases, such as holidays and vehicles. They can also generate a monthly income to supplement your fixed income from your compulsory products funds.

WHAT IF I'M SELF-EMPLOYED?

'You will not be able to contribute to a pension or provident fund as a self-employed entity – in which case I would recommend you contribute to a private retirement annuity fund,' suggests Gary. 'You might want to set an annual savings goal, and save by making lump-sum payments on an as-and-when basis,' adds Caron. 'You can also contribute up to 27.5% of your taxable income to retirement funding investments – limited to R350 000 per annum. You might need to consult a tax expert to work out that amount if you have multiple income streams,' concludes Sonja.

If you're a business owner, you should be weary of planning to retire on the profits or proceeds of selling your business. Success is not always guaranteed, and the transfer of ownership can be a long and complicated process. Life insurance and income protection are also imperative, especially if you are a solo operator.

CLOSING THE GAP

Gary summarises ways for a new retiree to close the income shortfall gap, should their savings vehicles not get them to the desired destination.

GET A PART-TIME JOB

Retirement doesn't necessarily mean you will never work again. Find a part-time job that suits your interests, such as working at a golf club, wine shop or museum.

BECOME AN ENTREPRENEUR

Retirees often have the ideal combination of attributes to launch a business: Experience, an extensive social network, and a working knowledge of specific products or services.

SELL YOUR STUFF

You have a lifetime of accumulated possessions clogging up your garage. Why not arrange a garage sale or advertise online?

LEVERAGE YOUR EXPERTISE

You might be able to lend your expertise, in the form of contract work, to your former employer or similar companies in the industry to make some extra cash.

SHARE YOUR KNOWLEDGE

There is often money to be made passing your know-how on to the next generation. Look into tutoring students, or coaching small-business owners.

GET IN TOUCH

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