

ALLAN GRAY

Are you saving enough for retirement?

If you want to look forward to your golden years, then you need your money to work for you while you're still working, says Allan Gray's Jeanette Marais.

According to National Treasury, only 6% of South Africans will have enough money to retire comfortably. This is a sobering statistic, especially against the backdrop of South African consumers feeling the pressure on their over-stretched budgets.

"The reality is that saving is hard for many South Africans at the moment. Consumers are juggling debt, rising food expenses, education, and other costs. Prioritising future financial needs may feel far off, but the truth is that it is your actions now that will determine how well you retire," says Jeanette Marais, director of distribution and client service at Allan Gray.

She adds that the first step to taking control of your retirement savings is to know how much you actually need.

"A capital sum of 17 times your final annual pre-tax salary will give you an income equal to about 75% of your salary at a retirement age of 65."

To find out if you are on track you can look at it this way: after working for 10 years, you should have saved up double your annual salary; after 20 years, five times your annual salary; and after 30 years, 10 times your annual salary. "This will bring you to the number of 17 times your annual salary after investing for 40 years," Marais says.

Graph: How much should you have saved up for retirement?

After working for	Saved a capital sum of
10 years	2 x your annual salary
20 years	5 x your annual salary
30 years	10x your annual salary
40 years	17x your annual salary

Source: Benchmark Survey by Sanlam Employee Benefits, Allan Gray research

But it's not just how long you invest, also *how* you invest.

"Putting your money under your mattress means you'll only have enough money to live on for two years when you retire," she points out, "because inflation erodes your savings."

Similarly, a money market account or a bank savings account usually won't beat inflation.

"The best bet is to start putting money away as early as possible and to use a diversified investment portfolio which includes a mix of equity, bonds, property, commodities and cash to give you a better chance to earn the returns you need," she says.

How do I know I'm saving enough?

Most of us delay saving for our retirement until we're older, which can be a mistake. "If you start investing when you're 25, your savings capital at retirement will be almost double than if you only start investing when you're 35 because of the benefit of compound interest," she asserts.

If you begin investing at the age of 25, you'll need to save only 15% of your salary, but if you start late at 45, you'll need to save a staggering 58% of your salary to retire comfortably, according to Allan Gray's calculations.

Graph: How to know whether you are on track: % of salary you need to save

If you start at age...	And achieve CPI + 5%
25	15%
30	22%
35	30%
40	41%
45	58%

Source: Allan Gray

One way to counter this is to use your salary increases and any bonuses to boost your retirement contribution, bearing in mind the government now allows you to invest 27.5% of your income tax-free.

Remember to account for lifestyle inflation

Marais cautions that if your personal inflation rate, the rate at which your lifestyle improves, is higher than the inflation rate (CPI), and you fail to account for it in your savings plan, you may experience a setback upon retirement.

"If you get a salary increase, remember to adjust your savings percentage accordingly, if you want your retirement income to fund your current lifestyle. Each rand that you spend on a better lifestyle is a rand you will get used to spending, and thus need to fund from your retirement income when you stop working. Alternatively you will have to postpone retiring."

"A good, independent financial adviser can help you plan for a retirement that accounts for lifestyle inflation, as well as help you understand if you are on track to enjoy your golden years," concludes Marais.

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Jeanette Marais will be presenting at the Allan Gray Investment Summit on 31 August 2017. www.investmentsummit.co.za