PLANNING FOR YOUR **RETIREMENT**

Save a portion of your monthly income to provide for a comfortable retirement. About 94% of South Africans reach retirement age without sufficient savings to maintain their lifestyles.

If you don't have enough money saved for your golden years, you'll either have to continue working or rely on family to support you. In some industries, retirement at 60 or 65 years is mandatory and you may not have a choice to remain employed. It's also unfair to expect adult children to accommodate you at a time when they are paying towards their own retirement and paying off a bond, car payments and tuition fees for school and university for their children.

Saving for retirement isn't just about having enough money to retire; it's about having enough money to retire comfortably and maintain your current standard of living. This translates to having about 70% of your monthly salary (in your final work year) available to spend in each month of your retirement. You won't be paying a bond or children's school fees, but you may have higher medical costs. The money you save now will determine where you can live and what types of activities, holidays and medical care you can enjoy during your retirement years.

An early start

Ideally, you should start saving for retirement from the very first pay cheque you receive. Your investment will receive interest and as it grows, you receive interest on interest, called compound interest. If you start early, you'll have significant savings and you'll be able to enjoy your retirement years in comfort.

A delayed start

If you don't yet have retirement savings, start as soon as possible. In order to catch up, you'll need to save as much as possible from now on. Contact a certified financial planner who will be able to calculate how much you will need for retirement; how much time you have left, and how much you need to save per month. If you have debt, consider paying this off as quickly as possible and use any additional funds to put into retirement savings.

How to save for your golden years

Step 1

Take it seriously and start today

Many of our parents, grandparents and great-grandparents did not take saving for old age seriously and many have paid a high price. Don't procrastinate. No matter how much you earn, start today! Work out a budget and aim to put away as much possible.

Step 2

Choose a product

If you are unsure about how to start, speak to a financial planner. He or she will calculate the amount you should be saving and find a retirement savings product that suits your needs.

Some examples are:

Pension or provident fund

- Your employer offers a pension or provident fund
- You contribute a percentage of your monthly salary
- Your employer's contributions are a taxable fringe benefit

- Contributions are deductible from taxable income
- If you resign, invest your withdrawal amount into a pension/provident preservation fund
- On retirement you can take 1/3 as cash. 2/3 must be reinvested in a monthly pension payment until your death

Retirement annuities

- There are different products to choose from, including unit trust retirement annuities
- Contributions are deductible from taxable income
- Most investments are safe from creditors
- Money is available after age 55
- These funds can be used as a supplement to a pension/provident fund
- Take 1/3 in cash. Reinvest 2/3 into a compulsory annuity

Points to consider

- As of 1 March 2016 the total monthly contributions towards retirement savings was increased to 27.5% with a R350 000 annual cap. So if your employer provides a pension or provident fund and you both contribute a total of 15%, you can now take out a retirement annuity to 'top up' to 27.5% as long as you don't exceed the cap amount.
- Administration costs can eat into your investment. Always read the fine print and know what you are paying.
- Check up on your broker's commission. Make sure that the product is right for you and not the one that earns the broker the highest commission.
- If you aren't sure how your fund works, ask your broker to explain it to you.
- Never cash out retirement savings. Instead place it in a preservation fund. If you withdraw your retirement savings when you resign, you will pay tax on the money. As of 1 March 2016 transfers from an approved pension fund or provident fund to either a pension or provident preservation fund or to a retirement annuity are tax free.
- Cover risks with the right short-term insurance products. Unforeseen incidents and health setbacks can cost significant amounts of money. If you don't have proper cover you may have to use money from your savings and investments. If you have insurance for your car and home contents and buildings and have medical aid and a funeral policy you will be covered for these risks.
- If you have dependants, you should have a life insurance policy to provide for your loved ones should you pass away.

Information verified by financial advisor Paul Slot of Octogen