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Are you saving enough to retire comfortably?

RANDS & SENSE

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THE fact that South Africans are generally not saving enough for retirement during their working lives has been well documented. Unless you are prepared to drop your standard of living significantly on retirement, you need around 75% of your final salary.

However, National Treasury estimates only around 6% of South Africans can afford this. In a December 2021 analysis, it noted that, "Household savings average just above 2% of GDP per annum, most of which are contractual savings for retirement funds".

The biggest problem with the current design of retirement fund regulations is it allows individuals to withdrawal the full value of their pension or provident fund when they resign or are retrenched.

National Treasury has therefore proposed reforms to retirement savings regulations which includes the introduction of a "two-pot" system. This will allow individuals to access one-third of their retirement savings early while preserving the remaining two-thirds for the long term.

When it comes to retirement savings the golden rule is to start early so your savings benefit from compound interest. The later you start the more of your monthly income you will need to contribute to retirement savings. The rule of thumb is that if you start contributing from the age of 25, you need to contribute around 15% of your salary to retirement savings. This percentage goes up exponentially the later you start. In other words, if you only start saving at the age of 35, you need to contribute 24% of your salary; 43% from the age of 45; and 60% if you only start from the age of 50.

In 1995, South Africa dropped the official retirement age to 60.

However, most people can expect to live for longer than their parents or grandparents given healthier lifestyles and medical advancements. This is a double-edged sword as increased life expectancy means your retirement savings also have to last longer, potentially for 25 or 30 years – or more.

Working out exactly how much capital you require to fund your retirement for this length of time is a sobering exercise, particularly after you have factored in inflation increases to maintain your purchasing power.

Slow economic growth, a high income tax burden relative to other countries, shrinking disposable income and a high rate of debt means that many people struggle to put sufficient savings aside for their retirement. This situation has been exacerbated by the devastating impact of the Covid-19 pandemic with lockdowns resulting in job losses and salary cuts.

A number of polls conducted in recent months reveals that the primary reason people are not saving is that simply is no money left at the end of month to allocate towards retirement savings. The surveys also reveal that there is a growing realisation amongst those age 50 and older that they will not be in a position to retire at the age of 65 and will need to work for longer.

Postponing retirement for a few years is a good idea for those individuals who started saving for retirement later, have not saved enough, withdrew their retirement savings out of necessity, or, for whatever reason, had to pause their contributions for a period of time and therefore don't have enough put aside to replace 75% of their income at retirement.

Delaying your retirement – or opting to continue with part-time employment even if it is at a reduced salary – beyond your official retirement age will help to either supplement your savings, or delay your reliance on your retirement savings which will in turn allow these savings to benefit from compound interest for longer.

However, a decision to delay retirement needs to also consider the inherent risks including the state of your health, your company's policy on employing people past the age of retirement and just how employable you are at that stage of your life.

It's never too late to start saving for your retirement. Irrespective of how late you are starting there are options. Speak to a financial adviser on a way forward.

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