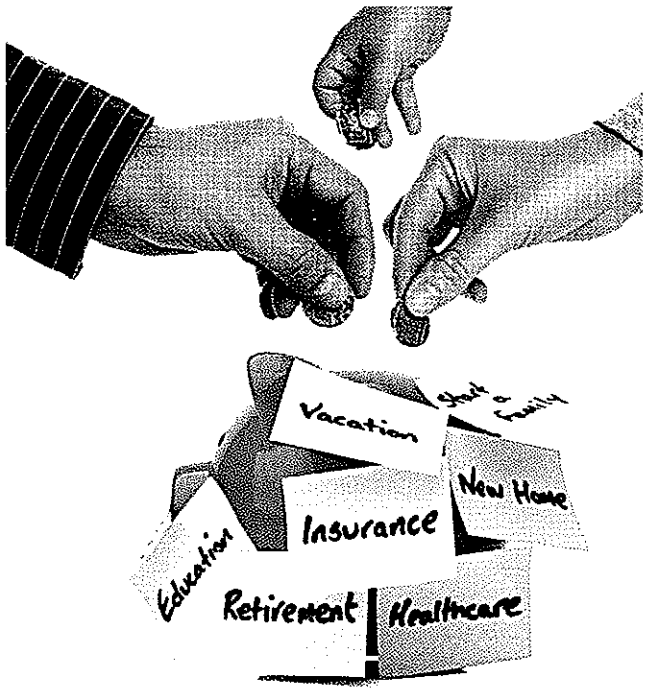
Will you have enough to retire?



Rowan Burger
Head of Investments Strategy
Liberty Retail SA



Will you have enough money to retire? How much should you be saving in order to live comfortably in your golden years?

The retirement lump-sum

In order to retire comfortably it is estimated that we need a retirement income equal to 75% of our final salary. To meet this requirement on the day you retire, you will need to have savings worth about 16 times your annual salary. So, if your annual salary in the last year of working is R500 000, you would need investment assets of R8 million in order to generate an income equal to 75% of your salary.

The three key drivers of achieving your savings goal are:

1. How much you save;
2. How long you save for; and
3. The return you earn on your investment.

1. How much to save

If you are close to retirement, it is easier to calculate how much you need to be saving to reach your goal, and your financial adviser can help you.

Younger savers can follow these guidelines, based on retiring at the age of 60:

Age you start saving for retirement	% of your total salary you should save
25	15%
35	25%
45	47%

2. How long to save for

The only way to save for longer is to keep working. If you are able to work until the age of 70, you will improve your retirement savings significantly. For example, if you start saving only at age 40 and want to retire at 60, you will have to save a massive 43% of your salary each year. If you delay retirement to age 70, you need to save only 18% of your salary. Working longer also adds to your vitality and longevity.

If you can't keep working, limit the withdrawals made from your retirement savings. In the first five years of retirement, it is critical that you try to keep your capital intact. While there is a temptation to draw the maximum amount, rather tighten your belt until you are 70 by limiting your withdrawal to around 3%. Most funds deliver a return of 3% after expenses and inflation, so by limiting your withdrawal to only your real return, your retirement funds will last longer.

3. Impact of investment returns

It is important to invest in a fund that provides a decent return after inflation. That means the fund must include growth assets such as equities and property although the government has legislation limiting the amount of equities you can invest in to 75%.

The "rule of thumb" percentages assume that you are invested in a balanced fund that produces an after-inflation return of 4%.

If you invest in a more aggressive fund with a real return of 5%, you will need to save 12% of your salary. However, you would need to be comfortable with the higher volatility that this fund would bring.

If you select a more conservative fund with a real return of only 3%, you would have to save 18% of your salary from age 25.

Given that we are entering a period of lower expected returns, it is most realistic to target a real return of 4%. Any returns above that should be seen as a bonus. ❐