PSG Wealth

RANDS AND SENSE

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RANDS AND SENSE - PERSONAL FINANCE

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How much is enough for retirement?

There have been many books and articles written on the subject of "how much is enough?". How much capital will you need to accumulate during your working years in order to have sufficient funds to enjoy your retirement years?

There are a number of ways to address this question. Ideally you should consult with an experienced Certified Financial Planner® who can make use of sophisticated financial planning tools to assist you to draw up a detailed, personalised plan. If you are looking for a ballpark estimate as to what will be required, you could use the following simple rule-of-thumb calculations.

Let's assume that you would like to retire at the age of 60, that you expect to live until you are 85 and that you would like to replace most of your pre-retirement income once you retire (to retain a similar standard of living). The first step is to establish the amount of capital you would require to achieve this objective.

You should aim to accumulate investments at least equal to your total gross annual income before the age of 30; three times your annual salary by age 40; six times by age 50; eight times by age 60 and ten times by the time you turn 67. By so doing, you will hopefully have saved enough to ensure that your investments will provide you with enough income when you retire to replace the income you were living on whilst working.

The sooner you start to save and invest the better. If you start saving at age 20, you will roughly need to save between 12% and 15% of your total income to secure a comfortable retirement.

If you only start saving when you turn 30, you will need to save between 22% and 25% of your total income. This becomes slightly more difficult to achieve as it is during this time that many people get married, purchase property and start a family. If you start saving at age 40, you would need to save between 42% and 45% of your total income. Not many people will be able to save almost half of their total income, especially when they may also have to pay expenses such as school and university fees. At age 50 you will need to invest 115% of your total income, in other words more than you actually earn! In these calculations we assume that inflation is on average 6% and investment returns from equities are on average 11% during the period.

Currently, only around 6% of South Africans are able to maintain their standard of living when they reach retirement. The rest will either have to dramatically downscale their standard of living or even have to rely on family or the State for support. It is vital to plan for your retirement and ensure that your investments grow ahead of inflation over the long term. It is never too late to start but the sooner you do so the better as it will benefit your financial health in the long run!

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