Media Release
Actuarial Society of South Africa
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Reality check – can you afford to retire?

How likely are you to have R6-million in savings and investments at your disposal when you turn 60? If you are planning to retire at age 60, this is the amount of money you will need to ensure that you have at least R15 000 a month before tax to live on without eating into your capital amount.

Peter Doyle, President of the Actuarial Society of South Africa, says one of the questions most frequently asked by consumers is: "How much do I need to save for my retirement?"

"Given the strong emphasis during the National Savings Month on helping South Africans improve their savings efforts, it is important that we also provide consumers with an indication of what their long-term savings goals should be," says Doyle.

He says given that South Africa's household savings rate (expressed as a percentage of GDP) was a dismal 1.5% last year, the majority of consumers clearly do not have a long-term savings strategy in place.

Unfortunately, says Doyle, human nature is to focus on the now, which for most means surviving financially from month to month. "The majority of households do not have an emergency lump sum saved, and providing for retirement is often not even on the agenda.

"We acknowledge that for many South Africans living on the breadline, saving money is considered an unattainable luxury. This group, however, is likely to survive on Government grants in retirement. But for the majority of employed people, that basic financial support will be too little to maintain their living standards.

"Ultimately, each and every one of us enjoying employment should therefore make saving for our retirement our number one financial planning priority. New cars, bigger houses and a wardrobe filled with the latest fashions are not going to be of much use when you want to retire and can't afford to."

How much will you need?

Doyle says while consumers should always have their financial needs assessed by a qualified financial adviser when deciding on a savings and investment strategy, actuarial models show that a good rule of thumb is that 12 times your annual salary is likely to buy you a financially comfortable retirement. This is assuming that you are debt free by the time you retire.

However, he adds, saving 12 times your annual salary is likely to be enough for only you. If you need to financially support your spouse in retirement, you need to work on a multiple of at least 15.

Doyle says once you have retired, you can probably expect an annual real return of 3% on your capital.

"Therefore, if you currently earn R1-million a year, you will need around R12-million when you retire. With an annual real return of 3%, you are likely to earn an income of R30 000 a month (pre-tax). This should keep pace fully with inflation for a very long time, providing it is properly invested."

"And if you earn R120 000 a year, you will need to put away close to R1.5-million by the time you retire if you want to have access to at least R3 750 a month."

Doyle says many consumers mistakenly take the value of their homes into account when tallying up their long-term savings. "You are fooling yourself with this approach, because you will still need to stay somewhere once you have retired. Also, selling your home to rent exposes you to the fluctuations of rental levels."

Savings determine your retirement date

Doyle says given South Africa's poor savings rate combined with the emerging trend of living longer, the majority of consumers do not realize that they will probably not have the luxury of retiring at age 55 or even 60 as was the norm for our grandparents, unless they start to save for it.

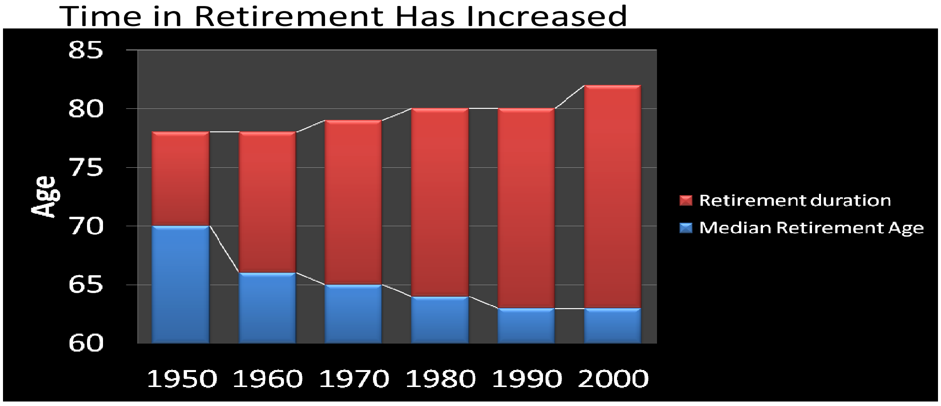
He adds that in order to survive financially the majority of South Africans will have to work to age 65 or beyond, while many pensioners will have to find ways of supplementing their income early on in retirement to avoid drawing into their capital.

"However, this is not unique to South Africa. Globally, increasing longevity has resulted in some of the developed countries re-evaluating the retirement age. New Zealand, for example, has done away with a retirement age completely. The UK is currently debating increasing their normal retirement age to 67."

Doyle says in neglecting to save for their retirement, most consumers do not take into consideration the risk of longevity.

"Statistically, there is a 50% chance that one partner of a couple where both are 60 years old will reach the age of 90. People are tending to live longer and as a result you could spend almost as much time in retirement as you did working."

Doyle says given the very real risk that you could live longer than your money will provide, you should consult a professional financial adviser, reprioritise your spending, and start saving immediately.



Source: US Bureau of Labour Statistics

Growing a pension

Doyle points out that you will probably be able to live comfortably on less than your current salary once retired due to the fact that there are tax benefits in retirement and you no longer have to save. In addition, you are likely to have settled your bond and other loans by then and your children will probably have completed their education.

He says key to accumulating enough money for a financially comfortable retirement is the age at which you begin contributing.

"This is not only due to the simple reason that if one starts early, more contributions can be made, but also due to the power of compound interest. The sooner contributions begin, the sooner interest on the contributions is earned and therefore, the sooner interest on that interest is earned."

Therefore, let's assume that once retired you would like to receive a monthly amount equal to 90% of your salary earned just before retirement. The table below shows that someone who starts savings at age 25 year, need only contribute 15% of earnings, whereas the 35 and 45 year olds must contribute 25% and 47% respectively to get to the same level of savings.

Doyle points out that paying off your bond and other debt would need to be in addition to your monthly retirement savings.

Start Age	25 year old	35 year old	45 year old
Required Contribution	15%	25%	47%

Therefore, concludes Doyle, as a basic rule of thumb, for every ten years you delay saving for your retirement, the required contribution rate – expressed as a percentage of current salary - doubles.

However, he adds, simple rules of thumb are not a substitute for good advice. “We recommend you consult with a professional financial advisor to ensure you are on track for a financially secure retirement.”

“If you are not currently in a position to save the required amount, at least make a commitment to whittle down your debt faster. Once you have cleared your debts, take that money and start saving it.”

Ends

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The Actuarial Society of South Africa is the professional organisation for actuaries and actuarial students in South Africa. The vision of the Actuarial Society is an actuarial profession of substance and stature, serving, and valued by, our communities as a primary source of authoritative advice and thought leadership in the understanding, modeling and management of financial and other measurable risk.