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THE INVESTMENT EXPERTS

Is Retiring Comfortably A Reality?

Retirement planning can be quite an anxiety-provoking exercise, especially nowadays when inflation is sky-high, markets are volatile, and the cost of living is generally more expensive. With the amount of money, we put towards retirement savings whether it be a lump sum or a monthly contribution, you tend to wonder if it really is sufficient for you to retire. How long would you have to work to save just enough to retire comfortably, and is retiring comfortably even a reality for South Africans?

Saving for retirement looks a bit different for everyone. Some people are privileged enough to be employed in companies that contribute towards their retirement savings in the form of pension, provident, and umbrella funds. Others voluntarily contribute to their retirement savings through retirement annuity funds. Not all people want their money tied up in any retirement funds, perhaps due to access constraints, therefore they may just keep their money in the bank or have different types of investments that provide income.

According to a new survey by Genesis Analytics and the Financial Sector Conduct Authority (FSCA), the majority of South Africans cannot afford to retire, let alone continue to fund their current lifestyle. According to Genesis Analytics, only 12% of the 3.6 million retirees had some form of income in 2020. More than 90% of retirees are unable to maintain their pre-retirement standard of living, and two-thirds have less than R50 000 in their retirement assets.

Since 2017, the average value of benefits granted has climbed marginally in real terms, averaging around R39 000 per month. The average monthly payment to pension funds, on the other hand, has been reasonably consistent at roughly R900 in real terms. Interestingly, the public and private sectors in South Africa have considerably different pension fund coverage. In the public sector, 92% of workers have a retirement product, whereas, in the private sector, just 50% or fewer have a retirement product. The proportion of people who have a retirement plan is especially low for people earning less than R14 000 per month.

Many experts advise adopting the 80% rule as a guideline for how much money you will need to pay your monthly expenses once you retire in South Africa. The standard rule of thumb for a pleasant retirement, according to Gus Van Der Spek, creator of upmarket retirement resort Wytham Estate, is 15%."Save away 15% of your pay for the duration of your working career, which should be roughly 40 years." A minimum of 20% is recommended for people who wish to retire in style. "Also, keep in mind that the value of R1 will change by the time you retire," he stated. If you earn R15 000 per month now and use the 80% rule, you will need at least R12 000 per month after retirement to maintain your present standard of living.

Dumo Mbethe, CEO of Momentum Corporate, warned that the Covid-related adjustments in wages and retirement fund contributions that were suspended due to firms' cash flow issues had simply made the retirement gap greater. He went on to say that many homes bear the additional strain of supporting family members who have lost their jobs.

There are a few tips one may consider in making retiring a little bit less tricky. You may want to take care of your debt before retiring, prioritising paying off credit card bills, school loans, vehicle loans, and even mortgages if you plan to retire within the next 12 months—or even if retirement is a distant prospect.

Sometimes retirement may come earlier due to retrenchment, and in such cases, you may want to have a contingency retirement plan. Unit trusts and real estate investments are examples of investments you can make for extra funds. In cases where you retire at the normal retirement age and you are a member of a pension fund, having your own retirement annuity fund would be a great help.

The truth is that most of us have not saved enough for retirement. As your career progresses, you may realise that you delayed it, but that doesn't mean you shouldn't begin. Despite the facts provided and whether your retirement plans appear safe, it is always a good idea to examine where you are. Whatever your financial circumstances, the same retirement principles apply this year as they always have: cut spending, plan for the unexpected, make prudent judgments about retirement savings and social security, and continue to produce income if possible.

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