One in three not able to retire

One in three South Africans believe that the government will take care of them in old age – a belief that contributes to the already enormous pressure on government to supply grants to pensioners who have neglected to save for retirement.

The recently-released bi-annual Old Mutual Savings and Investments Monitor findings estimate that around 45% of formally employed South Africans have no form of retirement savings. Only 29% of respondents had less of a long-term saving and investing mindset, which has a direct impact on saving for retirement.

“The research shows the importance of financial education to underscore how critical it is to save for the future while living within your means today,” says Jaco Gouws, Old Mutual product manager. “Too many South Africans are so focused on immediate gratification at the expense of the future. The challenge is to make people aware of how vital it is to make provision for retirement.”

For young employees in their 20s and 30s, saving for the long term is seldom top-of-mind and may be considered less important, especially in tough times. Indeed, many of them believe that they will have plenty of time to save.

However, Gouws emphasises, the earlier you start to save, the less you need to save each month to achieve the same end-goal. “Saving R500 a month for 40 years is far preferable to having to save R10 000 or even R15 000 a month for, say, 10 years to achieve the same result. The time to begin is now.”

He cites several good reasons and recommendations for embracing the saving initiative right now:

1. Start early. The longer you save, the more you benefit from compound interest, which means that interest is earned upon the interest already earned. The effect is a dramatic accumulation of the money invested and the interest realised. It is always easier to save less for longer than more for a shorter time. For example, you need to save almost 20 times as much per month if you started at age 55 compared to starting at age 25 (if you chose to retire at 65). In rand terms this could mean R500 per month at age 25 versus R10 000 a month if you start at 55. It is therefore advantageous to start saving earlier via a smaller monthly premium than starting later with a larger monthly premium.

2. Reassess your situation on a regular basis. Life is unpredictable. Changes to your personal situation can have a significant effect on your financial preparedness for retirement. Divorce, children and health issues are just some of the factors that could require an adjustment in retirement planning. South Africa has one of the highest divorce rates in the world. If your retirement plan was to depend on your spouse, and you are suddenly alone and having to provide for your own financial future, you would end up with a substantial shortage at retirement. Bear in mind people are living longer. There is a more than 50% chance of a person who has reached retirement age reaching the age of 92, which means that after you have reached retirement age at 60 or 65, more than 30 years of income may be needed.

3. Understand your retirement fund. Unfortunately, most people do not take the time to get acquainted with their retirement fund. It is crucial to understand where your fund is invested – whether in the correct portfolio in line with your risk profile to ensure maximum growth and whether life and disability cover are provided. Also understand how your monthly contributions are allocated.

4. Get advice from the professionals. Speak to an experienced and accredited financial adviser, who can assess your overall financial situation, including your retirement savings position. We always hear in the media of pensioners who invested their money with an obscure company that falsely promised astronomical returns. It is therefore important to invest with a well-respected company with a proven track-record to ensure that your retirement monies are safe.

5. Take responsibility for your retirement savings. As with most things in life, it is ultimately up to you to take responsibility for your retirement savings in order to ensure you are able to live out your golden years in comfort. This means arming yourself with as much knowledge as possible and taking action when required. Contribute as much as you possibly can today to ensure a better tomorrow.

Retirement comes around a lot faster than you realise. Unless you take action and start saving today, you will retire with insufficient income to support your current lifestyle.

“The key to comfortable retirement is planning and saving. Make the most of your retirement savings. Ask your financial adviser to compile a holistic financial plan to meet your financial needs now and in the future in the most tax efficient way,” concludes Gouws.