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MoneyTalk

Retirement Planning

Statistics show that only among 6% an 10% of workers will be able to retire comfortably. Others will have to continue to work to the very end (if they are lucky to retain their jobs after retirement age) or rely on their children, government or society for their upkeep during extending retirement years.

Retirement planning when you begin your working life is a low priority and often neglected aspect, usually some four decades away. A majority of readers, aged 40 or more, will agree that they have disregarded this important financial planning aspect and now find it unaffordable to catch up the neglected past. This is even more prevalent in the case of self employed individuals.

Why plan for retirement?
Our scenario differs from that of our previous generation as follows:

- average life expectancy is increasing resulting in longer years in retirement,
- increasing, high health care costs,
- regular job changes and spending retirement savings each time for paying off debt, etc.
- costly elderly employees are offered early retirement so employers can replace you with younger, more energetic and lower paid employees,
- more investment options, increasing the probability of making poor investment decisions,

Pensions, provided for by employers, do not cover your additional benefits today, for example, housing, car allowances, entertainment allowances, bonuses, etc., resulting in a retirement gap.

How much do I need to save?
Purchasing power reduces by 50% after 10 years in a 7.2% inflation environment, i.e., a pension of R5000 per month in 10 year's time is the equivalent of R2500 per month worth of goods today. It is very important to take this into account when planning your retirement savings.

Illustrated below, is how much of your annual income you need to save now to be able to retire with 75% of your final annual salary, assuming you earn a return of 3% over an above the inflation rate:

Present age	Target retirement age		
	55	60	65
20	10%	7%	6%
30	16%	12%	8%
40	32%	20%	14%
50	110%	48%	27%

Every cent of saving will give you a little more financial independence later.

Investing in a Retirement Annuity (RA)
Investing in an RA is convenient, regulated and tax efficient, and afford the investor certain protection by law.

Important matters when considering investments in retirement annuities (RA):

- an RA cannot be cashed in before age 55;
- at retirement, only a third can be taken in cash and the balance needs to be used to buy a pension to provide you with a ongoing monthly income
- RA's offer you an excellent opportunity to save and a tax-efficient way to save for retirement.

  A taxpayer may claim his contributions to a Retirement Annuity Fund of up to 15% of the income from non-retirement funding employment source as a tax deduction. Effectively, you may enjoy a tax saving of R30 (if you are paying an average 30% tax) for every R100 you invest in an RA, leaving you with an actual R70 invested out of your own pocket, the government encouraging you to save for retirement this way.

The choices of RA are endless, offered by most financial institutions.

Other issues
There are other factors to consider not covered here, for this you must get advice from a properly qualified financial adviser to analyse your overall financial position. The process is called a financial need's analysis that forms a basis for your planning and which must be revisited from time to time to ensure that you stay on track.

<u>It is never too late, so start saving for your financial independence during your retirement now.</u>

This article is extracted from Various Sources.

May 2004