

# Importance of saving for your Retirement

August 2016

## Need to know

We all wish we could have a perfect view into the future – maybe some super power like X-men, or the like. There are many things which will happen, which we have no control over – like the state of the economy, political upheavals or even the weather! There are a few matters though, when it comes to retirement savings that we do have control over. If managed correctly, these will result in a far more comfortable retirement.

The first which we address in this newsletter is, how extra savings which we may make towards our long term retirement savings, no matter how small, make a **huge** difference when we retire. The second is about saving your fund money when you leave your job, rather than taking it in cash and spending your savings.

## The value of more: how small additional savings add up

You don't need to be a maths expert to see how small amounts saved consistently over time, add up!

Most people in this current economic environment are battling to make ends meet. However, that R150 per month that you spent on a night out, if saved for your retirement, will make a big difference to your ultimate benefit on retirement.

Let's take a look at the example of Reynolds and Thembi. Reynolds likes to take his girlfriend out to the movies and pizza once a month and spends his spare cash of R150. Thembi on the other hand diligently saves the same R150 towards her retirement savings:

Period of savings	Reynolds: No additional retirement savings	Thembi: saved only an extra R150 every month for 40 years
5	R 117 600.00	R 129 084.18
15	R 691 500.00	R 751 266.60
25	R 2 243 100.00	R 2 428 098.73
35	R 5 665 600.00	R 6 175 418.65
<b>40</b>	<b>R 9 205 900.00</b>	<b>R 10 038 452.22</b>
<b>Assumptions:</b>		
Investment Growth:	10%	10%
Contribution:	15% of Salary	15% of Salary + R150pm
Salary Increases	5%pa	5%pa
Salary at start of savings period	R 10 000.00	R 10 000.00

## The table above shows us that both Reynolds and Thembi:

-  Earned the same salary of R10,000 per month and both had a 5% salary increase every year, for 40 years
-  Saved a total of 15% of their Fund Salary towards retirement, for a period of 40 years
-  Started saving when they were young and saved their retirement moneys between jobs, without taking any of their savings in cash.

However, Thembi's benefit on retirement was **R 832 552.22 higher than Reynolds**, just because she saved an extra **R150 per month**, for 40 years! How is this possible you may ask? It's simple, this the **magical effect of compound interest!**

## Why preserving your fund money for retirement is a no-brainer

Many South Africans are retiring with little to no savings on retirement, because they spend their Fund savings meant for their retirement, when they change jobs. Some cash out their withdrawal benefits to get out of debt, some invest this in their bond and others just spend it on luxury items.

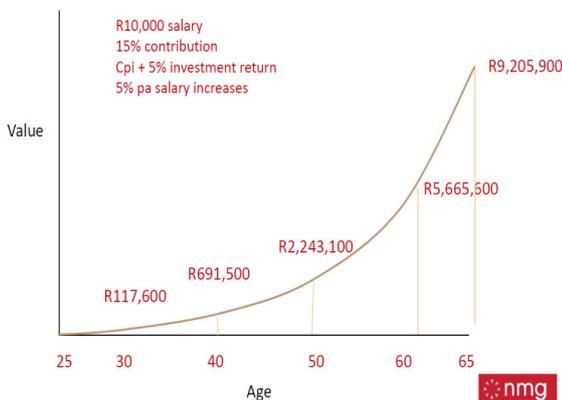
No matter how your withdrawal benefit is spent, the end result is the same. The average South African will only save for retirement in their final job before retirement, which if they are lucky, will last for about 20 years. The graphs below show us the shocking truth of how this affects our final benefit on retirement, by showing us two sets of choices made by Alice:

**Savings options on withdrawal**

**Transfer your withdrawal benefit to:**

1. Your new Employer's fund
2. A preservation pension / provident fund
3. A retirement annuity fund

A picture of Alice making good choices:

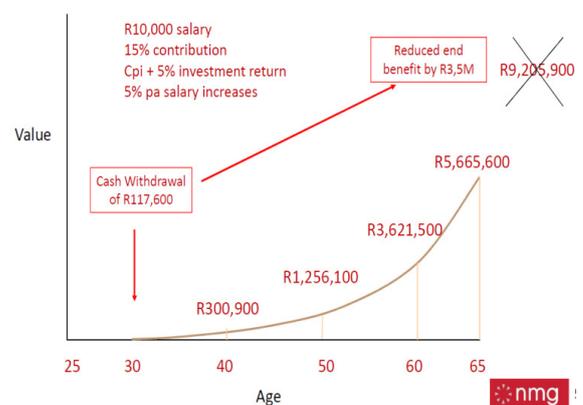


This graph shows us a picture of Alice, who:

- ▶ Earned a salary of R10,000 per month
- ▶ Saved 15% of Fund salary towards retirement for 40 years
- ▶ Had salary increases of 5% every year for 40 years
- ▶ Earned investment returns of inflation +5%
- ▶ Had a benefit on retirement of **R9,205,900**

**IN THIS PICTURE, ALICE ALWAYS SAVED HER FUND SAVINGS BETWEEN JOBS, FOR RETIREMENT**

Alice again, but here she made a bad choice:



This graph shows us the same picture of Alice, but in this graph, Alice made a bad choice!

Alice took a cash withdrawal benefit of R117,600 at the age of 30. She never took another withdrawal benefit in cash again throughout her working life, but it was too late. Because of the bad choice she made at age 30, Alice lost out on the power of compound interest.

**AS A RESULT, ALICE'S BENEFIT ON RETIREMENT WAS R3,5 MILLION LOWER THAN IT WOULD HAVE BEEN, HAD SHE PRESERVED HER WITHDRAWAL BENEFIT FOR RETIREMENT!**