PRUDENTIAL
INVESTMENT MANAGERS

Brandon Johnson
Communications Manager

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Five things you should know before you retire

Getting the basics right when it comes to your retirement can be tricky, but it's important that you do. So to help you out here are five key things to know about saving for retirement.

1. You probably need to save more
South Africans are notoriously bad savers, especially when it comes to saving for retirement. According to The World Bank less than 6% of South Africans will have enough saved up to retire comfortably. That's a concerning statistic! What this means is that most people will have to make some serious adjustments to their lifestyle when they retire. What's worse is that some may actually run out of money. Fortunately, all is not lost. A good independent financial adviser may be able to help you get back on track by helping you set saving goals and develop a practical budget. They can also ensure you have an appropriate investment portfolio and plan in place. Also, our retirement fund calculator can help you check just how close (or far off) you are to meet your retirement goal.

2. Time is your friend

The longer you have to save, the more time your money has to grow. That's all thanks to the power of compounding, which basically allows you to earn returns on your returns. If you've read any of our articles on retirement savings, you probably noticed that we are big advocates of starting to save early. Compounding savings over time allows you to contribute less for longer and still end up with the right amount. However, knowing how much to contribute is the difficult part, which is why it's a good idea to get help from a financial adviser.

3. You don't really get the final say

When you pass away, your retirement fund benefits aren't entirely yours to give away to whom you wish. The trustees of the fund are responsible for allocating your benefits to your dependants; therefore anyone who was financially dependent on you may have a claim. That's not to say that your wishes will be completely disregarded. As a retirement fund member, you have the option of nominating beneficiaries to give the trustees an indication of how you want your death benefits distributed when you die. Although the decision still rests with them, the best thing that you can do is to make sure that your nominated beneficiaries are up to date.

4. Pay off your debt

According to the South African Savings Institute, South Africans allocate 72.5% of their income to paying off debt. So if you plan to retire with an income replacement ratio of 75% (that is, 75% of what you earned when you were working), it's likely that the bulk of your income will go to paying off bills. That doesn't leave much left for you to live on, let alone to sustain your standard of living. Try working towards reducing your biggest and highest-interest debt as soon as possible (such as your home loans, vehicle finance etc.) to bring that number as far down as possible. Remember, the less debt that you have when you retire, the less income you'll need, which will hopefully allow your money to last a little longer.

5. The tax man wants to help you save

Probably one of the biggest incentives to encourage you to save is the tax deduction the government allows for contributions to an approved retirement fund. Currently, you can contribute up to 27.5% of your taxable income (or remuneration for PAYE, whichever is greater) to a retirement fund as a tax deduction. This is limited to a maximum of R350,000 for the year of assessment. The big win here is that you may end up paying less tax (or get tax back from SARS) just by saving for retirement, while at the same time moving closer towards your retirement goal.

For more information or if you have any questions please speak to your financial adviser. Alternatively, contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.