HOW MUCH IS ENOUGH FOR RETIREMENT?

People often ask me to help them figure out how much capital they need in order to retire comfortably. Each of us have different goals and lifestyle costs so there is no magic formula that will work for everyone but here are some guidelines that might help.

HOW MUCH CAPITAL DO YOU NEED AT RETIREMENT?

Many financial advisors use a multiple of your final salary to work out how much you require at retirement. For example, if you earn R120,000 in the last year before retirement; you need 14 x R120,000 = R1.68m. However, I prefer to use your actual monthly expenses as a basis for determining how much capital you need at retirement. If you need R10,000 per month after tax; you should multiply this by 12 (to get an annual amount) and multiply this by 20 = R2.4m. This will allow you to draw R10,000 per month and to increase this with inflation every year for the remainder of your life. This is quite a conservative calculation but some experts (including Daniel R Wessels from Martin, Eksteen, Jordaan and Wessels) believe that we should be even more conservative. Wessels suggests that you need to increase your retirement capital to R2.664m to be certain that you have sufficient capital in all market conditions. This means you should multiply your annual expenses by 22.2 times and not the 20 that I use.

These guidelines cannot be applied to everyone because each of us is different. As an example, if you are in excellent health and your family has a history of longevity, you might require more capital than someone who is in poor health. Alternatively, you might be very risk averse with your investments so your capital will not grow as much as someone with a balanced investment portfolio. This is a choice you make and it means you will require even more capital to retire safely.

HOW MUCH SHOULD YOU SAVE

Many people advocate that you save 10% of your total monthly income for retirement. Total income means your cost-to-company salary so, if you earn R15,000 per month before deductions, you should save R1,500 monthly. This percentage will not ensure a safe retirement in all market conditions. If we experience a prolonged period of low stock market returns (e.g. 5% average growth over a 10 year period) you will need to save more than 10%. In order to survive in all market condistions, you should save 15% of your total income over your career.

WHAT ARE YOUR OPTIONS?

You should always be pessimistic in your retirement planning and try to plan for the worst. If you are saving for retirement, try to save 15% of your total income so that you can be sure of having enough. If you are close to retirement and don’t have enough capital, try to work a few years longer than planned or try to get some part-time work to supplement your retirement capital. People are living much longer than previous generations but their retirement planning has not kept pace with this reality, so try to adjust your planning as early as possible. If you are already retired and have little chance of generating income, you will need to reduce your expenses and ensure that your remaining investments are correctly structured. This means you should balance the requirement to generate as much growth as possible with the need to manage your risks so that your remaining capital is protected from major stock market losses. The worst thing you can do now is put your head in the sand and hope for things to get better.