

AM I SAVING ENOUGH FOR RETIREMENT?

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After a year like 2020 where many investors temporarily ceased their contributions to retirement funds, it is wise to revisit your retirement savings objectives and obtain an indication of whether or not you are saving sufficiently for retirement.

A good starting point in determining whether your retirement savings are on track, is to make use of the simple formulas listed below. Important to note, these calculation methods are considered general “rules-of-thumb” to assist you with evaluating your current level of retirement savings, but to structure a personalised retirement plan, you should contact an adviser for professional advice.

METHOD #1 – MULTIPLES OF ANNUAL SALARY

The simplest way to check if your savings are on track, is to compare your current retirement savings to the multiples of salary you require at that stage of your career. The table below outlines the different multiples bases on the number of years you have worked (assuming that your total working career is from age 25 to age 60 years) –

YEARS WORKED	MULTIPLES TO HAVE SAVED BY THEN
5	1 x
10	2 x
15	3.5 x
20	5 x
25	7.5 x
30	10 x
35	15 x



EN AVANT

A French ballet term describing a dance step requiring dancers to move **forward** and **onwards**.

METHOD #2 – PERCENTAGE BASED ON STARTING AGE

The second method takes into consideration that not everyone starts saving with their first pay-check. Based on the age that you start to save, these are the percentages that you would need to save to get your retirement savings on track (assuming that your total working career is from age 25 to age 60 years) –

AGE START SAVING AT	PERCENTAGE OF SALARY REQUIRED TO SAVE
25	15%
30	20%
35	26%
40	38%
45	60%

METHOD #3 – NET REPLACEMENT RATIO ('NRR')

The Net Replacement Ratio ('NRR') indicates, based on your current retirement savings, what percentage of your salary at retirement you should be able to replace with your estimated retirement capital. A rule of thumb is that a NRR of 75% is generally regarded to be suitable to allow you to maintain your standard of living during retirement. This rule of thumb assumes that you spent $\pm 25\%$ of your pre-retirement income servicing debt and that you will be debt free at retirement. An acceptable NRR therefore depends on your individual circumstances and lifestyle at retirement.

The NRR calculator allows you to enter your basic details, including existing retirement savings, current contribution, and planned retirement age. The "output" generated by the calculator will indicate if your current savings are on track, or if you are at risk of not having enough for retirement and how much you should aim to save additionally to negate this shortfall.

IMPORTANT TO REMEMBER WHEN EVALUATING YOUR RETIREMENT SAVINGS –

- Start with your first salary, but if you have not, start today and gradually increase your annual savings percentage as your income increases.
- Save the maximum contribution level you can afford (this might even be more than your employer's default contribution).
- Ensure that you are invested in the correct investment portfolio, especially if your retirement savings are not automatically structured according to a life-staging strategy.
- Preserve your retirement capital when changing jobs. Ensure that you have a separate emergency fund so that you do not need to cash in your retirement savings at resignation / retrenchment.

Using the methods above, is a good starting point to review your current retirement savings. However, this should only serve as a guideline, as it doesn't take all of your personal circumstances, goals and expected retirement lifestyle into account.

Contact one of our advisors today, should you wish to find out more about structuring your own tailored retirement plan.