Retirement is the start of a new life!

Make it happen.

The Type of Fund…

The demise of the defined benefit fund (where the total benefit available at retirement date is based on your final average salary times a factor linked to years of service) saw moist companies shifting to defined contribution funds, so chances are you are on a defined contribution retirement fund.

That means that the benefit you will receive depends solely on the contributions that you have made, your company has made and the growth that has been achieved by your fund manager. Even a great fund manager cannot create wealth when markets are slow and uncertain, as they are currently, not to mention the restrictions on offshore investing imposed by the ridiculous Regulation 28. So, unlike a defined benefit fund, there is absolutely no guarantee of what will eventually be available to you at retirement date.

So… How much do I need?

It's up to you and your lifestyle, but let's look at an example of someone who needs R20 000 a month to live on in a retired state – in other words, they are retired, there is no more salary or income other than from the retirement fund and they are living the kind of life that they wish to lead. This would be taxed by the way, although only gently – **your tax threshold when you are over 65 is R121 000 and all your unrecouped qualifying medical expenses will probably give you a tax credit, so maybe not much to tax!**

A simple calculation will show that if one has R4 000 000 invested in an income bearing source such as a living annuity which is delivering a compound annual growth of 6%, it would produce R240 000, which is the R20 000 that you needed, without touching the capital. **To put it another way, for every R5 000 that you want to draw, you need R1 000 000 invested at 6%, if you want to leave your capital intact.**

R4 000 000 = **R20 000**

The capital amount I need to have invested in a Living Annuity with 6% annual compound growth interest.

The monthly income I need in retirement derived off the capital amount of R4 million.

Figures are for illustration purposes only.

Stratagem does not give financial advice. Our mission is to provide solid, independently-based knowledge that will enable our learners to understand and interpret the financial advice that they will receive from a financial advisor.

Don’t forget inflation…

In one’s first year of retirement, all may go well on R20 000 per month. Very soon however the pinch of inflation will come calling and after maybe two years it will be very difficult to live to the same standard that you were, unless one draws more than the R20 000. Let’s remain conservative for a minute and say that we are still earning 6% on our R4 000 000 and we now want to draw R24 000 per month. That’s R4 000 per month more than the growth, which would mean that after a year of doing that there would be R3 952 000 invested. The growth on this the following year at 6% would be R237 120 or R19 760 per month, so there would be a negative gap in the next year of R4 240 per month between what you are earning and what you are drawing.

	Capital amount with 6% annual compound growth.	Interest earned annually	Monthly retirement income earned.	Impact on Capital amount
Year 1	**R4 000 000**	**R240 000**	**R20 000**	**-**
Year 2	**R4 000 000**	**R240 000**	**R24 000**	**(– R 4000)**
	In Year 2 monthly drawings increase to R24 000 (R4 000 more than the interest earned on the capital amount of R4 million.) This reduces the capital amount by the end of the second year.			
Year 3	**R3 952 000**	**R237 120**	**R19 760**	**-**

It doesn’t take a genius to see where this is going. With living annuities there is a real possibility of running out of cash whilst living. If the above scenario arises, your financial advisor will be able to re-forecast each year for you and you will be able to see exactly what your alternatives are.

3 Things to remember

1. You don’t have to leave millions behind for your heirs. You do need to leave money for your dependants though.

2. Your job is not to make your children rich when you die. It is to try and not become financially dependent on them or others.

3. If you can earn R5 000 per month in post-retirement years, it’s like having an extra R1 000 000 in your retirement fund (for as long as you earn it).

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