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INVESTMENTS

Time trials

Getting the right asset mix

AS A RULE of thumb, the average South African should save enough to cover his final gross salary 12 times by the age of 65. You can use your present salary to estimate this amount in current money terms.

"So if you earn R100,000 a year as you approach the end of your working life, you would need to have R1,200,000 in retirement savings," calculates Steven Nathan, chief executive of retirement investment specialists 10X Investments.

The sooner the better

Obviously the sooner you start to save the better, giving you sufficient time to build your savings, little by little, over an average working life of about 40 years. Another advantage is that your savings benefit from compounding. The bottom line, though, is that once you stop earning an income, you'll no longer be able to save. "And that's when it truly is too late," says Nathan.

"Compounding means that you earn a return on your returns over time, which increases your savings even faster," says Nathan. "In fact, the first ten years of a 40-year saving term can add as much as 70% to your nest egg."

If, however, you are starting later, have a strategy to enhance the value of your nest egg. You could, for instance, increase your monthly contribution or you could plan to retire later in life.

Nathan says you need to save about 15% of your income. Supposing you earn a gross salary of R10,000 a month, then you should be saving R1 500 from every pay cheque, and increasing the amount in line with pay rises.

"It may sound like a lot, but if you get into the habit of saving that amount and match your lifestyle to your net income, you won't have to cut back later," he explains. "The trick is to pay yourself first."

If you cannot afford 15%, save what you can. "Putting away a lesser amount diligently every month can still add up to a substantial asset after 40 years."

Own the right asset mix

As a young person, you can afford to hold mainly shares in your investment mix, and be reasonably assured that you will earn a high real (after-inflation) return over time.

"Because time is on your side, you can ride out the periodic market corrections," assures Nathan.

Near retirement, you no longer have this time. In this case Nathan recommends mainly low risk assets such as cash and bonds, to preserve your accumulated wealth. "Don't speculate too much on equities at this stage, as there is no time to recover losses."

Steven Nathan

The ideal way to save is through a formal retirement fund governed by the Pension Funds Act. It allows for disciplined saving and offers attractive tax benefits that can increase your retirement investment by as much as 30% over a working life.

"First prize is your employer's pension or provident fund."

But this is not available to everyone. "If you are self-employed, or your employer does not offer a workplace fund, consider a low-cost retirement annuity," suggests Nathan.

Beware of high fees, he says. Many retirement funds deliver poor results because of high fees, he warns, saying the average SA retirement annuity fund levies 3% in total fees every year.

"We advise people to find a retirement fund that charges no more than 1% in total fees annually, like our 10X Retirement Annuity Fund," he adds.

Each 1% in fees saved increases your retirement fund by around 30%.