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## How to prevent a financial day zero

Over the past year, Western Cape residents have had to envisage a future without running water and adapt their lifestyles accordingly. They have rallied together to ward off 'Day Zero', cutting down on their water consumption and recycling water to get the most out of every drop. If we apply the same logic to retirement planning, what would we do differently today to prevent a financial day zero in retirement?

Trying to predict the future is a guessing game fraught with issues, but the importance of thinking about the future you want, and planning accordingly, cannot be underestimated.

Each of us has our own unique circumstances to consider but the equation is universal: Assuming that we work for around 40 years, receiving roughly 480 pay cheques (excluding bonuses), we need to ensure that we build up sufficient capital in our retirement funds so that we do not 'run dry'.

Here are four steps to put you on the right track:

1. **Don't do tomorrow what can be done today**
   Many of us put off saving for retirement, saying we will begin next month. However, months go by and we have not started (or gone to the gym or cleared out that cupboard). Time is one of the ingredients in a successful retirement plan: The earlier you start, the longer you can benefit from compound interest – where you earn interest today on the interest you earned yesterday.

   To illustrate, consider twins Henry and Adam, aged 25, who each have a R1 000 a month to invest or spend. Henry starts immediately, investing the R1 000 each month for 40 years. Assuming an investment return of 10%, his investment balance will be R6 324 080 by age 65.

   Adam, on the other hand, delays investing, starting at age 45 with a monthly contribution of R2 000. By doubling his monthly investment amount to catch up, he will invest the same total amount as his brother by the time they are both 65. However, his investment balance will be R1 518 738.

   By starting 20 years earlier, Henry has a balance that is roughly 4.2 times greater than that of his brother despite putting aside the same amount of capital in total.

2. **Don't be on autopilot**
   If you are contributing to a retirement plan through your employer, do you know how much you are contributing and whether it is enough? Can you make additional contributions? Do you have an understanding about your underlying investments or the track record of the investment manager? Taking an active interest in your retirement savings will help you to make sure that you are on track to provide for yourself in the future. Many employer-sponsored retirement arrangements allow you some choice – it is in your best interest to find out as much as you can about yours.

3. **Add to your retirement savings whenever you can**
   During the year, look for opportunities to top up your coffers. If you get a tax refund or a bonus from your employer, consider saving a portion. A good habit to adopt is to treat any unexpected income as you would your monthly salary and use a portion to pay off debt and a portion to contribute to your retirement savings rather than spending the whole amount.

   It's also a good idea to supplement your occupational savings with a retirement annuity or a tax-free investment that offer tax benefits, which you forfeit if you don't act each year.*

4. **Focus on the long term with every short-term decision**
   We live in a world where spending is constantly at our fingertips. Our inboxes are brimming with 'special deals' and we can complete an online shopping order in just a few clicks. To make room in your budget for saving, try to become aware of your spending habits and make more carefully considered decisions. You should allocate a budget for non-essentials and perform regular budget check-ups.

   When changing jobs, try to stay focused on your long-term goal and resist cashing in your retirement savings. Taking a withdrawal will cost you more in the end: Not only do you deplete your capital, but you also miss out on the benefits of compounding described earlier.

   Consider the twins again: They both start working at the age of 25, retire at 65, and contribute the same monthly amount to their occupational retirement funds each year. They both change jobs halfway through their working lives at age 45, but Henry preserves all of his retirement savings, whereas Adam cashes in the full amount at that point and then starts saving from scratch. They both continue to save an equal monthly amount towards retirement. Henry ends up with 3.3 times more money than Adam when they retire at age 65. The reason that Henry has so much more is that the majority of his final benefit was derived from the capital and returns that he saved during the first 20 years (given the effect of compound interest). Adam lost out.

### Don't rely on miracles when it comes to your retirement savings

While dam levels in the Western Cape increased with the winter rains, residents have to continue making sacrifices in consumption to ensure a long-term solution to the water crisis. To avoid day zero in your retirement, you should start early, put away as much as you can, take an active interest in your retirement savings, and remain focused.

*If you are planning to make use of the tax concessions for the 2018/19 tax year, please make sure we receive your instruction, supporting documents and payment well in advance of the 28 February 2019 deadline.

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