LIBERTY
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3 essential rules for a comfortable retirement

A recent study by Alexander Forbes showed that half of all pension fund members were retiring with just a quarter of their salary as their pension benefit – mainly because they withdrew money from their pension funds before they retired, for example when they changed jobs.

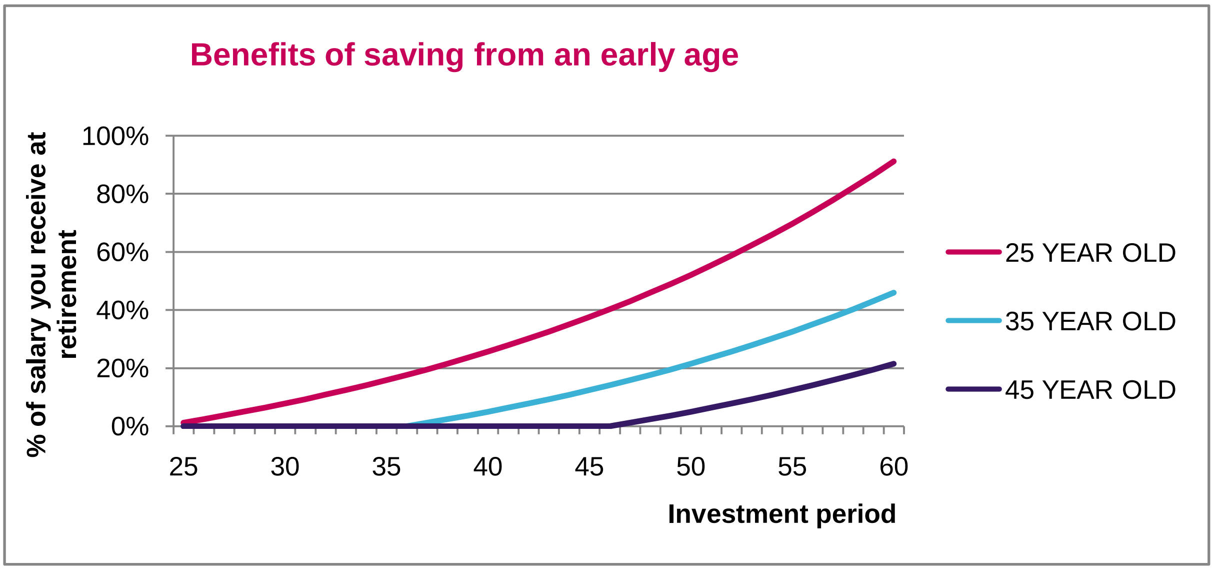
Follow these cardinal rules for retirement savings to prevent this from happening to you:
1. Start saving early
2. Save your bonus
3. Don't cash out your savings before retirement

1. Start saving early

If you save 15% of your salary from age 25, only a third of the benefit you receive at retirement will come from your contributions. The rest will be from growth (interest).

The earlier you start saving for your retirement, the better, not just because more payments can be made, but also because of the power of compound interest. The sooner you start saving, the sooner you can earn interest on your savings, and then earn interest on *that* interest.

The graph below shows how an investor who starts saving for retirement at age 25 (pink line) receives a higher percentage of his or her salary as a pension at retirement (net replacement ratio, or NRR) than those who begin investing later.



Another way of looking at it is how much more you will have to save to get 90% of your salary at retirement. The table below shows that for every ten years that you delay savings, you need to almost double the amount you save.

Start Age	25	35	45
Percentage of salary you need to save for 90% income at retirement	15%	25%	47%

2. Save your bonus

You can build up your retirement 'bonus' by taking advantage of the tax-free allowance and saving 15% of each bonus into a retirement vehicle .

Because you rely on your bonus to finance your lifestyle, you need to ensure that you include a bonus amount in the final salary you will need on retirement. In other words, increase the amount you need to live on by the bonus amount.

3. Don't cash out your savings before retirement

The current workplace is very mobile. It is estimated that new entrants to the workforce will have an average of seven employers during their careers. The same Alexander Forbes study showed that people cash out their pensions 90% of the time when changing jobs and end up paying tax on their savings.

If you contribute 15% of your salary to retirement savings for five years, your pension fund will be equal to about one year's salary. It may seem easy to replace that money, but the missed opportunity of the growth on that money is what really costs you in retirement:

If one assumes that you will save for 40 years towards retirement, the first five years of saving represent 12.5% (5/40 years) of your total retirement contributions. However on retirement this amount represents 22% of your total retirement savings due to the growth on that investment.

So, nearly a *quarter* of your final investment value is built up from only the *first 5 years* of retirement contributions.

To replace the value of that withdrawal, you would have to ***increase*** your savings to ***20% for the next 30 years***. This becomes more difficult because your available income for savings tends to decrease as your life responsibilities (home and school payments) increase.

Withdrawing this portion of the fund value also has tax implications, as the amount withdrawn will be taxed immediately and will also be deducted from the tax-free withdrawal that you would otherwise have at retirement.

Working longer

A 30 year old who has not started saving yet, can save 24% of his salary to retire at the age of 60, or delay his retirement to 70 and only save 11%.

If you did not start saving for retirement early and can't afford to catch up with high monthly premiums, the only option is to retire later. By putting off your retirement for 10 years, your retirement funds will have had longer to benefit from compounding interest and you will draw a pension for 10 years less, significantly improving your retirement nest egg. However, this is a last resort rather than a retirement savings strategy as many employers will not allow employment beyond normal retirement age.