

Are you saving enough?

Get the most out of your retirement saving options

Most people don't know how much they are contributing to their retirement funding - they believe that, because they are saving something, they will have enough to cover their retirement. However, few people are saving the recommended 15%.

Why we are not saving enough:

- Contribution rates are based on basic salary and not total package
- Company funds usually include death benefits and related disability benefits. These are deducted from the contribution before the balance is saved for retirement

Pension fund

If you are a member of a pension fund you can contribute 7.5% of your salary tax free and your employer can claim tax deduction on its contributions in addition to this.

Companies usually give employees a choice of how much they wish to contribute and people often choose a lower contribution because they want a larger take-home package.

Make sure you are taking the maximum contribution possible. Your company pension fund is the most cost-effective way to save as the company usually pays the fees on the fund.

Provident fund

If you belong to a provident fund, your company is making the contribution on your behalf.

The company is able to contribute up to 20% of your salary. This contribution is built into your cost-to-company package. Again, most people want a larger take-home pay and usually choose a lower amount to be paid into the provident fund.

Take another look at your salary package: for every rand you save, up to 40c is funded by the taxman.

Retirement annuity (RA)

If your company does not provide a pension or provident fund, it can contribute 15% of your salary to an RA on your behalf. Self-employed people can also contribute up to 15% of their income into an RA with after-tax money. Unfortunately, research shows that only around 3% of self-employed people save enough for retirement.

You can also supplement your pension or provident fund with an RA; however the tax benefit only applies to your non-pensionable salary or a maximum of R1750. The non-pensionable salary refers to the "extras" or fringe benefits you receive. So for example, if you receive a bonus, you can invest 15% of the bonus tax-free into an RA. If you receive a car allowance and medical aid allowance, you can invest 15% of the value of that allowance into an RA. There is no point in saving after-tax money into an RA as there are more flexible and cost effective ways to save.

Speak to your financial adviser today about your retirement saving options.

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