



Money for nothing A true story

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The power of compound interest is the most effective way to fund your retirement

Recently I received an email from one of our branch managers, Chris Roux, which demonstrates the power of saving. It is sometimes difficult to keep up with your retirement savings especially when times are tough, but this real example of a Liberty client's retirement benefit will hopefully give you the motivation to keep on saving.

In May 1980 this client took out a retirement annuity for R50 a month. He did not increase his premiums over the years: when he retired last month (February 2011) he had paid a total of R18 500 in premiums.

However, his retirement value is an impressive R645 084. This reflects a return of 18.39% a year! Just 3% of this value came from premiums - the rest is pure growth, money for nothing.

When you consider the tax benefit of a retirement annuity, his actual premiums were only R12 950 as he would have received the rest as a tax rebate.

Monthly premium		R50
Total premiums paid over 31 years	R18 500	
Less tax rebates on premiums	-R5 550	R12 950
Value of policy on retirement		R645 084

Such a relatively small amount of money saved each month has provided a real financial boost to this policyholder in his retirement years.

Not only does this tell the story of compound growth but also the benefits of a retirement annuity as a savings tool. Firstly it provides for a tax deduction and secondly, because you are unable to cash in the benefit before retirement, it creates a forced saving, allowing your money to grow.

Although this particular policyholder benefited from a period of particularly strong market returns, even in a low-return environment your total premiums will make up only a small percentage of your final retirement value if you save for 25 years. Long-term savings is the only way one will be able to retire comfortably.

Retirement savings is often seen as a grudge purchase as we have to postpone spending today for a future that is hard to conceive of right now. But as this example demonstrates, the benefit of saving far outweighs the short-term enjoyment of money spent today.

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