Here's the sum that will raise the hair at the back of your neck

How much money do you really need to retire comfortably?

It is obvious that most people don't have a clue how big this sum really can be.

A lot of people oversimplify the calculations to determine how much is required to sustain the lifestyle that they have become accustomed to.

First prize would be to find a qualified financial planner who can help you with the projected calculations for retirement and determine if there are any shortcomings.
If you can't or don't want to, or simply can't trust anyone, which is often the case, then the table below could probably help to give you an idea of the challenge you might face.

How much money do you need when you retire?

Rate of return per year, after cost				
Age	**6%**	**8%**	**10%**	**12%**
55	33x	24x	18x	14x
60	29x	22x	17x	13x
65	24x	19x	15x	12x

Multiply the amount of money that you need every year with the relevant factor (33 and so on) in order to estimate the amount required by retirement for it to last until 90 years of age.

If you are responsible for your own pension, then this matrix will help you calculate how much capital you will require at retirement by multiplying your annual required income (if you were to retire today) by a factor depending on the expected return on your investments.

Take note of the following assumptions:

- This is applicable to any annual salary requirement.
- There's no provision made for tax, therefore you should work with gross salary.
- An annual income escalation of 6% is assumed (close to inflation).
- I assume you would like to withdraw an income from your investments until age 90, after which the investment will be depleted.
- I rounded al factors to the nearest 1.

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Practical example

Let me illustrate how this table works by using a practical example:

The Joneses are 60 and want to retire, provided they have enough savings for retirement. They are conservative investors; therefore, they are going to invest their funds in an investment that will give them an average of 10% growth per year (after all fees).

To maintain their standard of living, the Joneses would like an income of R360 000 per year (R30 000 per month) after retirement. If we look at the table, you will see that the Joneses need to apply the factor of 17 x (where Age 60 intersects 10% return in the table) to their required income of R 360 000. Therefore R360 000 x 17 amounts to R 6 120 000 minimum that they would need to achieve an income of R 30 000 pm until age 90.

In the same scenario, assume the Joneses are conservative investors and invest in funds that can only return an average of 6% growth (after costs). They would therefore need 29 x R360 000 which is equivalent to R10 440 000, if their income is to last until age 90.

If you are still on your way to retirement

Let's assume you are 55 years old and want to retire at age 65, but want to do the necessary calculations to establish your nominal goal at age 65. You can apply the following steps and use the same table to calculate your required sum:

Estimated need in current value (assume we use R30 000 per month) x (1 + inflation rate as a factor of 100) ^ (number of years to retirement). (The ^ symbol represents "to the power of").

In the above example the answer would be: R30 000 x (1,06) ^10 = R53 725

To calculate the sum of the pot of money you would need at retirement (in 10 years' time), multiply R53 725 by 12 months and then multiply by the factor of 15 obtained from the table (at the intersection of age 65 and 10% growth). This amounts to R 9 670 500.

There are a few important facts that you need to consider regarding the above:

To reach your investment goal of 10% after fees, you need to be prepared to take on risk. I see too many people taking 10% growth as a given, but their portfolios are too conservative to reach this growth or the investments are on platforms that are simply too expensive and make it impossible to reach this growth after all fees.

Feel free to contact the Author, should you have any questions or comments on this month's article in the TwoCents.
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To measure your performance is the only way to know your long-term growth. You must know what your long-term investment return is from inception, and how it compares to the actual market growth and only then you can make realistic assumptions on your future investment growth.

By viewing this table you can see that the difference in expected growth of 12% and actual growth of 8% will have a tremendous impact on your wealth at retirement. Your money would probably be depleted halfway through retirement. To put your head in the sand is not a strategy. If you realize you have a problem, start looking for solutions.

Too often the advice given to you would be to save 20% or even 40% of your monthly salary to reach your retirement goal. People who use this advice clearly don't understand that most people simply do not have this kind of surplus in their budgets.

If you can save 40% of your salary, then you would not be in dilemma at retirement in the first place. If you have a short term left to retirement, then an extra 2% growth per year won't have a big impact on your investment.

Time can help

The only thing that can save you from insufficient retirement savings is time.

To postpone your retirement date with three or five years or to change your income need after retirement for the first 5 to 10 years would have a massive improvement on your situation for retirement.

Take your primary home into account. Sometimes the proceeds on selling your house would provide a boost at the end of your retirement.

Age 90 is likely to be too conservative to base calculations on if you have a clean bill of health at retirement. We assume your money would be completely depleted at age 90, but your life expectancy might be longer than 90 years (or you may want to leave an inheritance). If so then you would need to postpone your timeframe.

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