SIMEKA

member of Sanlam group

Spice Up Your Savings

Saving for retirement is a long-term investment and it is important that you start saving as early as possible.

Research has shown that very few South Africans retire comfortably or can maintain their current lifestyle in retirement. In your 20s and 30s retirement may not be a spicy topic – but it is a very important one and it requires you to put some measurements in place, such as:

- **At what age do you plan to retire?**
- **How much will you need as an income in retirement?**
- **What can you do today, to make sure that you meet this target?**

Your retirement fund is one of the most cost effective savings options, you have a number of different savings options you could consider to spice up your retirement plan. Let's start with your retirement fund.

YOUR RETIREMENT FUND

You will find no better savings option than your retirement fund. Here's why:

- You receive a **tax deduction** on your contributions towards all retirement funding, up to 27.5% per annum, of your total salary package, to a maximum of R350 000 per annum. This means that increasing your monthly contributions results in less of your monthly income being taxed.
- The money you earn on investments in a retirement fund is **not taxed**, which means no capital gains tax, tax on interest, etc.
- As your savings grow, you earn interest on the growth too!
- Retirement funds are generally managed very cost effectively and the investment fees are very competitive, as the fund has "bulk buying power". **Lower costs = Higher savings** for your retirement.

Many retirement funds also offer you the opportunity to make **additional voluntary contributions** (AVCs) to your retirement fund in order to give you a better chance at reaching your retirement goal.

An AVC is a regular monthly or once-off lump-sum contribution that you can make towards your retirement fund (should the rules allow for it). This contribution is over and above your fixed monthly contribution.

- There are no costs involved in making AVCs.
- An AVC can easily be put on hold, increased, or decreased as your circumstances change.
- By making AVCs, you will be able to make the most of tax deductibility, as explained alongside.

Retirement funds are long-term investment vehicles. You cannot access your savings until you exit the fund. If you have resigned from your employer, we strongly suggest that you keep your money in your retirement fund (or transfer it to your new employer's retirement fund or a different preservation fund of your choice) to allow it to continue to grow.

TAX-FREE SAVINGS ACCOUNTS

Another savings vehicle that is also tax efficient is a tax-free savings account. If you have a little extra money to save, then taking advantage of this savings vehicle is a great way to supplement your existing retirement plan.

- You may contribute up to R36 000 in a tax year up to a total of R500 000 in your lifetime, without paying tax on the interest earned.
- This allows your money to grow faster than it would in a ‘normal’ savings account.
- You may withdraw your money at any time (for example, in the event of an emergency), making this a suitable short-, medium- or long-term investment option.

However, remember to keep track of how much you have paid in, so that you do not exceed your annual or lifetime limits. Even if you have two or three accounts, the limit does not change – it is a limit per person, not per account. And if you take money out, it doesn’t change the limits described above.

You can speak to your bank or a financial advisor if you’d like to open one of these accounts. Tax-free savings accounts range from low-risk investments (for short-term investing) to higher-risk investments (for longer-term investing) so you can choose the one that suits your needs best. These investments, however, typically attract higher (retail) fees as opposed to retirement funds.

OTHER INVESTMENT PLATFORMS

Various investment platforms are available to individuals who are comfortable that their investment/financial knowledge is good. These platforms allow individuals to choose their own shares and/or exchange traded funds, allowing for easy trading in the market.

These platforms can range in fees and complexity – but inexpensive options are available to individuals with smaller investment amounts. If you do not have any investment knowledge, this could be a risky option.

UNIT TRUSTS

A unit trust is a selection of shares, bonds, property, cash, or other asset classes, offered by various professional asset managers.

- Unit trusts are an easy way to save for a goal or to simply save money for a rainy day.
- You can withdraw your savings at any time.
- As with tax-free savings accounts, unit trusts offer a wide range of investment options to suit your needs.

While unit trusts are popular, it is worth noting that there are no tax benefits to investing in unit trusts (as opposed to retirement funds and tax-free savings accounts), and the fees tend to be much higher than those in a retirement fund.

MONEY MARKET ACCOUNTS

A money market account is a deposit account that pays interest based on current interest rates in the money markets. Many banks offer money market accounts to individuals as an easy way to save money.

These investments may have a minimum deposit requirement in order to open an account – depending on the particular financial institution’s requirements.

Money market accounts typically have a lower risk profile (for short-term goals) and as a result, do not yield high returns. In addition, these accounts do not provide tax benefits to individuals.

STOKVELS

A stokvel is a savings pool where a group of individuals contribute an agreed amount (usually on a monthly basis). Each participant will get a turn to receive a lump-sum payment.

Stokvels offer each member in the group an equal and fair benefit. For example, if there are 12 members contributing to a stokvel, at R100 each per month, then each person will get a lump-sum payment of R1200 once a year.

Some banks also offer stokvel options to groups who may want to save via this option. These options do not provide any tax benefits.