Preparing for the Ultimate Human Race
(Allan Gray News Release)

05 June 2019: The Comrades marathon, held annually in June and known as the Ultimate Human Race, sees runners embarking on a gruelling 89 kilometres between the cities of Durban and Pietermaritzburg.

"Investors can learn from marathon runners when preparing for the 'ultimate human race', that is, retiring financially independent," says Belinda Carbutt, group savings specialist at Allan Gray and avid runner.

Borrowing from a marathon runner's training guidelines, Carbutt gives investors top tips below on how to retire financially independent.

Tip #1: Get a training programme
Training programmes guide runners on how to reach their race goals. For a successful retirement plan, the starting point is to create and stick to a monthly budget.

"Keep a 'running' total of everything you spend monthly, from debit orders to small items like coffees. A budget will help you determine where you are spending too much on items you don't need, and prioritise important items, such as saving for retirement," says Carbutt.

Tip #2: Stick to a healthy diet
A good diet ensures that marathon runners' bodies are correctly fuelled. Planning for retirement is no different.

Carbutt says that like with good and bad calories in food, the same is true for financial debt.

"Good debt may help you create value or generate long-term income, such as a bond to buy a house. Bad debt encompasses items that quickly lose their value. Having a clear understanding of your needs versus wants will assist you in following a healthy financial diet."

Tip #3: Pace yourself
Carbutt explains that marathon runners understand that running at their own, consistent pace gets them to the finish line, but they may need to make adjustments along the way to achieve their goal. Saving is similar.

"Your age and level of contributions determine the pace at which you will need to save to achieve your goal."

It is widely held that a retirement income equal to 75% of your final salary will allow you to live at the same standard of living during retirement. This figure accounts for the adjustments many people make as they age, for example, no further retirement savings contributions, but higher medical costs.

Allan Gray research indicates that saving 16% of your salary is a reasonable starting point, if you are 25 years old, but this increases as you age.

"You need to save 21% if you start saving at 30, up to 39% if you start at 40, and up to 56% if you start at 45. These numbers, while averages, assume a consistent, inflationary salary increase each year, an inflation rate of 6% p.a., that you retire at 65 and that you earn an average return of consumer price inflation (CPI) plus 5%."

Tip #4: Cross training
Carbutt says that cross-training helps runners build strength. Similarly, there are different products that can be used to complement your retirement planning.

"Saving for retirement through your employer's pension or provident fund may not be enough. While many budgets are severely stretched, careful planning and maximising occasional windfalls – such as bonuses or tax refunds – can help bump up savings. Consider using a tax-free investment (TFI) or a retirement annuity (RA) to supplement your occupational retirement fund."

She suggests speaking to a financial adviser to carefully understand the differences between the two products, and whether they are right for your own circumstances.

Tip #5: Don't procrastinate
"Fear to start training can cause many runners to procrastinate," says Carbutt. "As an investor, guard against this type of inertia."

She explains that if you started training for the 'ultimate human race' at the age of 25 by saving R1 000 per month, you would have R5 550 348 by age 65 (assuming 10% annual return), with 91.4% of the final sum from compound interest. You would only have paid R480 000 over four decades to reach the total amount.

"For Comrades runners who don't make it there is always next year, provided that you start training early enough. While it is never too late to start saving for retirement, the earlier you start, the better your chances of reaching your goal," concludes Carbutt.

Allan Gray will be presenting at the Allan Gray Investment Summit in Cape Town and Johannesburg in July 2019. For more, visit www.investmentsummit.co.za