South African Payroll Association
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Retirement advice for the sandwich generation

There is a name given to those who have spent their working years bringing up their children while caring for their ageing parents – the sandwich generation. This generation is juggling enormous personal responsibility alongside concerns about retirement and the fear that they have not saved enough. As they now approach retirement age and face the challenges around finances, it is the time to make solid plans for the future and to take advantage of recent government tax reforms in order to save and be secure.

"The sandwich generation includes those who are close to 50 and who are only starting to save now because earlier in life they had to take care of kids and ageing parents," says Nicolette Nicholson, director at the South African Payroll Association (SAPA). "It will require immense self-discipline for them to prepare for their retirement effectively while they are still working. They need to be aware of how their retirement plans are structured and how to read their payslips so they can be more money savvy."

Recent changes to retirement taxation came into effect on 01 March 2016. The impact of these amends has yet to be felt by employees and many are unsure as to what they are, how they can benefit from them or what they mean in the long term. The reform has changed the deduction limit for retirement fund contributions to 27.5% of taxable income limited to R350,000.00 per annum. The original limit was 7.5% for pension contributions and 15% for retirement annuities and did not take both individual and business contributions into consideration. The new limit does and the impact on payslip and person can potentially change the way they save.

Analysing the payslip

Employees need an active retirement annuity (RA) to benefit from the reform and this makes today the ideal time to take advantage of the change and start saving.

"For example, a person earning R20,000 per month can now get an RA for approximately R775 per month and the nett salary will be more or less the same pre and post the March reform date if the full 15% (pre March 2016) were not utilised," says Nicholson. "Those who have an existing RA should assess whether it is more or less than 15% (pre March 2016) of their income and, if less, should now change it to be the balance of 27.5% of taxable income less the total retirement fund contribution % in order to experience the benefits."

Knowing how to read and assess your payslip will also provide clear insight into the impact of the reform. If nett pay remains the same between February 2016 and March 2016, then it has made a positive contribution, if not, it is worth speaking with a professional who can provide insight into how the payslip is structured.

"Anyone who received an increase in March or who needs clearer insight into their payslip should speak with a payroll professional," says Nicholson. "Their role is to assist and provide you with accurate information on the payslip. Payroll professionals ultimately affects the pocket of the man on the street ensuring 'bread' on their table. Understanding your payslip will assist you in making sound decisions when it comes to your retirement planning. The payroll professional may however not provide financial advice as they are not a registered Financial Advisor."

Tax amendments have also extended into a change in tax bracket. This has resulted in more tax for those still earning the same salary and may not see any extra money on the payslip. However, with the advice of a professional, you can use the reform to structure your salary more efficiently, allocating a larger percentage to your RA and thereby saving on tax and preparing for the future. The sandwich generation should not bank on the younger generation as their retirement plan, they need to set aside today for a secure tomorrow.

"Our first instinct is to provide, but there is a need to understand that the most important person is you and you can only help others if you have provided for yourself," concludes Nicholson. "To retire comfortably, the average person requires R10 million so those who are over 50 and who did not make provision, need to save around R9, 000 a month for a period of approximately 10 years. Don't buy that car, instead show the younger generation how it's done. Make a plan, set dates and stay on top of reform, legislation and payslip so you are always getting the most from your money."

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