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Retirement planning suggestions for 2017

Retirement may be known as the "golden years" but with latest statistics showing that people are living longer the future is not looking as rosy for many. While this means that your "golden years" will last even longer allowing you to spend more time with your children and grandchildren or even travelling, the harsh reality for many is inadequate savings to carry you through your extended retirement. The result is that many people have to go back to work, downgrade their standard of living or rely on family to enable them to survive. When it comes to saving for retirement, many people just don't know where to start.

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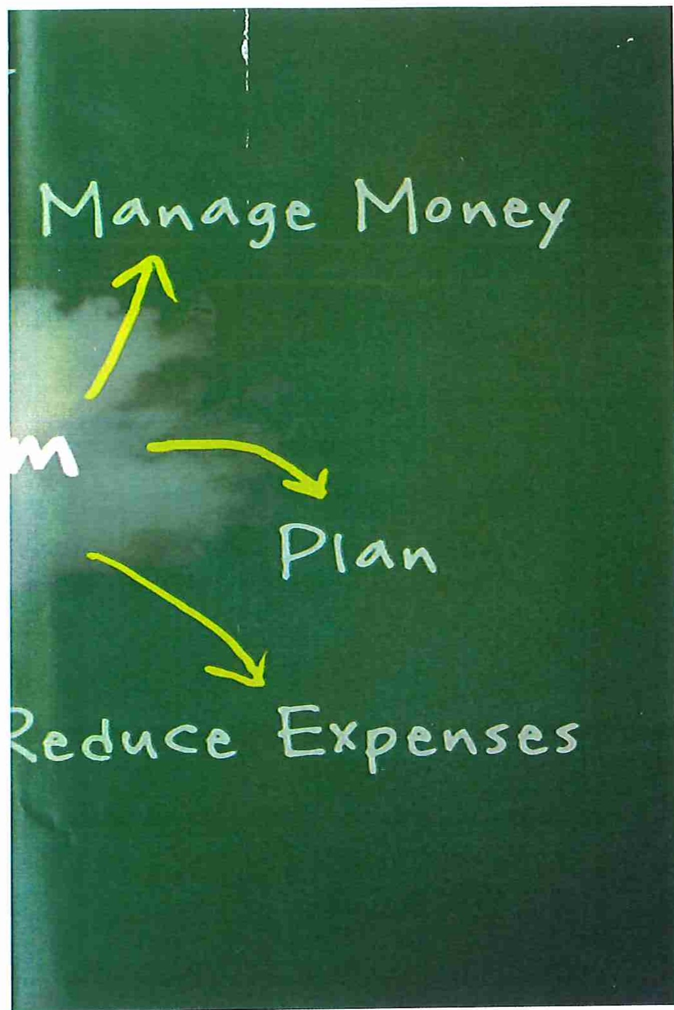

The likelihood of not having sufficient savings to retire comfortably is mounting for South Africans every day, prompting the need to start planning accordingly today. To steer you in the right direction, I've put together six suggestions you should consider to guide you when making all those important retirement and saving decisions.

1. Don't touch your savings

The current trend observed in people in their twenties (Generation Y) is that they have a growing propensity for job hopping. When leaving a job, many people will cash in their retirement saving and pay the tax penalty. Nobody really likes the idea of putting money away for a rainy day in the distant future, but withdrawing your savings two or three times as a young employee means that a large amount of your retirement savings will be sacrificed. So make sure that you preserve your benefits when you change jobs by transferring your funds to your new retirement fund or to a preservation fund. Not preserving retirement fund savings and rather spending the accumulated benefit is the biggest reasons for inadequate retirement provision.

Compound interest is normally referred to as the seventh wonder of the world. The earlier you start saving, the more you can take advantage of the effect of compounding. The real benefit of compound interest is that your earnings will be invested as soon as you've received it and you will start earning interest on your investment. So make the most of the opportunity to maximise retirement savings and other benefits (trauma, death cover, etc) offered by your employer.

2. Ask your scheme about your default annuity option

For the last 20 years, individuals in defined contribution schemes have been left on their own to make one of the most important financial decisions of their lives. Too many people, retirement funds and financial advisers focus on building wealth before retirement, paying little or no attention to what should happen in retirement. Members often fall prey to unscrupulous advisors or simply make the wrong investment decisions. To address this issue, National Treasury has published initial and revised "draft default regulations" during December 2016 which set out requirements to consider in setting up default strategies.

The draft regulations stipulate that all defined contribution retirement funds, including retirement annuity funds, will therefore be required to have in place a trustee endorsed default annuity strategy that is appropriate and suitable for the members who will be enrolled into it.

3. Align your pre- and post-retirement investments

Goals based investing principles apply a specific investment strategy, tailored to a client's specific goals and asset pool. This encourages investors to identify their financial goals. Once all your dreams are on the table, you can prioritise and set timelines.

The asset/liability matching process ensures that investments are chosen to be more in line with a specific goal and investment time frame. Saving for retirement should be a main priority for all investors. For investing to be truly effective, it has to include both an asset management focus and a liability focus.

4. Failing to plan is planning to fail

The secret to having enough money to retire comfortably is not necessarily putting away huge amounts of money during your working life but starting your retirement saving early enough in your life. If you are a member of generation Y (born after 1980), you are young, generally single and carefree. You think about your university loan payment, your cell phone bill or your credit card balance and the latest fashion. But you are actually in the best position of your life to start saving for retirement and making compound interest work in your favour.

If you are 20 and set aside 15 percent of every rand you earn during your working career, you will be in good financial shape at retirement. If you are a member of

generation X (born between 1965 and 1979) and wait until age 40 to start saving for retirement, you will need to save 25 percent of your earnings. A baby boomer (born before 1965) that postpones saving for retirement until age 50 will need to accumulate 45 percent of earnings to survive once they become a pensioner. There is no magic number predicted for the amount you need to save, but one thing that is certain is if you start retirement planning from the day you start your working career you will accumulate a sufficient nest egg to carry you through your golden years.

The key planning steps to note are as follows:

(*a*) **WHEN:** You need to decide on the age at which you want to retire.

(*b*) **HOW MUCH:** Estimate the annual income you will need during retirement to maintain your standard of living. It is usually around 60-80 percent of the salary you have earned before retirement. It is also worthwhile determining how much you need to retire with in today's money terms.

(*c*) **MARKET VALUES:** Get your annual retirement fund statement from your employer or from your online app which provides the market values of your retirement savings.

(*d*) **ADDITIONAL SAVINGS:** Get the market value of any additional retirement investments.

Do not worry about the calculation yourself. Get hold of a trustworthy certified financial planner to assist you with your retirement plans. Most companies have sophisticated retirement planning packages to assist members.

5. Don't neglect the paperwork

Save yourself the trouble later by having your policies, will and personal documentation updated. Pay attention to the following information and inform your insurance company of any changes:

- Spouse/dependant details (especially in the case of death and divorce).
- Banking details.
- Address and telephone numbers.

Know exactly what benefits are covered by your retirement policies. Schedule regular appointments with your financial adviser and inform them of any change in personal circumstances. It is also very important for your spouse to be informed about retirement matters.

6. Preserve for post retirement medical aid expenses

Old age increases the risk of medical problems and typically results in increased healthcare and medical aid expenses. The employer contribution to medical aid schemes most often ceases at retirement and becomes the pensioner's responsibility. Without planning and saving for your medical aid expenses, living out your golden years in comfort while also covering your medical expenses may result in a burden too large to carry yourself. Prevent deteriorating health from wiping out your accumulated retirement funding by saving for your medical aid expenses and allowing increases in your contributions of 10-15% per annum. A suggested additional measure to avoid leaking all your savings into medical care would be to take out healthcare insurance.

Your retirement may seem like a lifetime away – far into the future. The best thing that you can do to make sure that you enjoy the fruits of your life's labour is to start planning for your retirement early in your working career. These 6 suggestions should give you a solid foundation to build from. ❒

Generation Y (age 20-30 years)	Generation X (age 31-45 years)	Baby boomers (age 46-60 years)
• Start planning today • Preserve your fund when you resign • Keep a budget • Manage your debt • Boost your retirement savings • Appoint a certified financial adviser	• Follow exactly the same steps as generation Y members PLUS • Review your strategy with your financial adviser • Consider the impact of any changes in your personal circumstances (e.g. marriage, children, divorce, death, job change)	• Think about the impact of early retirement • Consider your sources of income during retirement • Consider a job in post retirement • Plan for your healthcare options • Plan your post retirement lifestyle e.g. where to live, travelling • Meet regularly with your certified financial adviser