RETRIEMENT? DON'T BE CAUGHT NAPPING!

Too many people think of retirement planning as something that needs to be done just prior to retirement.

Retirement planning actually consists of three phases:

1. Planning (be)for(e) retirement
2. Investment planning at retirement
3. Continuous monitoring of investments after retirement

This Finflash deals with Planning before retirement.

Planning for retirement should start when you receive your first pay cheque, but young people usually don't want to think about old age and retirement when they have just started working, when financial freedom and fulfilment of their ambitions and dreams are key. Well, if you are young and you are not bothered about retirement, then at least start saving in order to be financially independent enough to do and achieve all the things that you are dreaming about, because if you don't, you will regret it. At the same time just remember that it is a good idea to enhance your financial position by utilising the tax benefits of retirement funds, retirement annuities and tax free saving accounts! Please ask your adviser about this.

For all of you who are young (or not so young) and aware that you will need a substantial amount of money in order to retire and be financially independent as well as being able to sustain your lifestyle, remember the following two rules of thumb:

1. You need about 22 times your annual income at retirement to be financially independent, maintain your lifestyle, increase your income post retirement in line with inflation and preserve capital. To achieve all this is quite a daunting task for most of us and the longer you postpone, the more impossible it will become.

2. It is recommended that you do not draw more than 4,5% - 5% income per R1 million capital per annum when you retire (roughly between R3 750 - R4 000 pm in income for every R1 million of available capital). Otherwise you might find that you will outlive your capital and/or that your income will not be able to keep up with inflation and that you will not be able to sustain your lifestyle post retirement.

Do a quick calculation for yourself

- determine the current value of your retirement fund and/or your retirement annuities,
- plus the current cash value of your savings and investments (bank deposits, endowment policies, unit trust investments, share portfolio)
- include the value of investment properties from which you earn a rental income, but do not include your primary home, because you still need a place to live post retirement

Does all this add up to 22 times your current annual income? Will you be able to live on 4,5% - 5% of that amount per year? If not, do something about it today. Contact your financial adviser and let him/her do an analysis for you, help you with a personalized financial plan and strategy and start implementing it. The sooner you start, the more likely you will be to achieve your retirement goals.

Remember, whether you have been investing on your own or using an adviser to help you take decisions, retirement brings a whole new set of questions and considerations-and it is important to get the right answers so you can have the retirement you want.

Do you know what your current retirement situation is with regard to

- your employee benefits,
- your total current investment portfolio,
- your insurance policies and
- possible shortfalls, to name but a few aspects?

Your financial adviser will take all the different components of your financial position into consideration in order to design a holistic plan to fit your needs and dreams. More importantly, your financial adviser will monitor this plan to ensure that the plan keeps pace with your changing personal and financial position.

Something else to remember is that the relationship with your financial adviser is not a once off. Your adviser does an analysis, designs a personal plan for you and then oversees and recalibrates this plan on an ongoing basis taking into consideration your changing life and financial circumstances prior to as well as post retirement. Once you have retired, your adviser will continue to monitor your investments and keep your financial plan on track. So it makes good sense to start investing in this relationship with your adviser as well.

Planning for retirement also includes considerations such as to

- know how many pay-checks you can still expect which will fund your entire retirement (or when can you afford to retire?)
- be aware that you may be retired for as long or even longer than your working career; the longevity risk is serious
- know how much you should be saving on a monthly basis to live the lifestyle you would like
- ensure that your saving strategies make sense; that they include sufficient diversification
- balance saving for your own needs with the needs of children and parents
- aim to be debt free; taking on additional debt to help children, may just not be feasible
- find strategies you can use to lower your taxes—now and in the future

In addition, are you aware of the possible financial challenges posed by retirement, such as

- having to get by without the security of a regular salary
- having more time available and therefore needing more funds for hobbies or travel
- having insufficient funds to maintain your lifestyle and fulfil your dreams
- having to cope with the cost of health care which increases above the rate of inflation
- being forced to sell property because of increased rates & taxes, etc.

If you would like to know more about your possible position at retirement, or would like help with working out any of these or other aspects regarding planning for retirement, ask your adviser.

If you plan ahead, you can meet these (and other challenges) with the help of a sound, holistic financial plan. Your financial adviser can help and the sooner you start, the better your chances of achieving a financially care-free retirement.

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