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Your guide to retirement

Your golden years, or retirement years, should be something that you enjoy however, more often than not people get a bit of a shock when they say goodbye to the corporate world and start to prepare for the new stage in their life.

In your twenties you barely make enough money to buy yourself lunch. In your thirties your priorities change to buying a home, paying school fees and keeping your car maintained. In your forties the majority of the commitments you have in your thirties may still be there and by the time you are fifty or sixty you may find yourself wanting to celebrate your new found freedom by spending your hard earned money on a holiday or dream car.

But by the time you reach fifty or sixty you realise that you have more years of saving behind you than in front of you. Looking back you know you shouldn't have cashed in your pension twice when you changed jobs. But the money was available and you needed it to pay off some debt and pay for school fees.

This is the reality that a lot of people find themselves in. The shocking discovery people make is that what they thought was adequate is not even close to enough.

This is why it's important that you don't simply rely on your company pension or provident fund, even in the case where you only had one employer your entire career, your money will probably not be enough for the day that you retired.

If you have changed jobs and you didn't transfer your retirement fund, you will have even less.

The challenge for many people is the lack of long-term savings, specifically for retirement and some wealth management experts estimate that only 3% of South Africans will be financially independent on retirement - a big concern for the remaining 97%.

Another eye-opener is an estimate that those on an employer-backed pension fund may still need an extra 30% to 70% on top of their retirement pay-out. That is; if they plan to live comfortably after retirement.

The extra can only be provided by personal saving

Some sophisticated financial planning models have been developed to show what people need to save at certain stages in their lives or careers. But there are three rules of thumb for retirement saving that anyone can apply:

1. Start saving today
2. You're never too young to save, and
3. You're never too old to start.

When planning for your retirement, it is important to note that lifestyles and objectives differ from person to person, and therefore a one-size fits all approach to retirement planning with rigid formulas is not always appropriate.

The factors that are always important are a commitment to start, the foresight to develop a savings plan and write down goals and budgets and the determination to see things through.

Regular, long-term saving is always appropriate and becomes more vital by the day as life expectancy continues to grow for those who stay fit and healthy into their 50s and beyond.

Longer life expectancy is one of several trends affecting retirement planning. Improved nutrition, better exercise and smart lifestyle choices like non-smoking, mean many people stay active well into their 70s and 80s. This enables some seniors to defer retirement.

Not only does it allow you to delay retirement, but it also means that you may be living in retirement longer than you took into account when determining your financial. As people are living longer, they need more money to retire on, which is compounded by the rising cost of living.

Preserving your retirement fund

Lack of preservation is one of the challenges facing retirement funds. The problem is that the preservation of retirement funds is competing with people's self-preservation.

When you leave a job and you were part of the company's pension fund or retirement annuity (RA), you have the option to withdraw your funds. However, this can have a big impact on your future financial situation.

Retirement fund members make financial decisions that have a significant impact on their retirement situation without properly understanding the implications of their decisions. Research has shown that many retirement fund members are not aware of the level of tax they will pay when withdrawing their funds early, rather than preserving their retirement savings.

If you access your retirement funds before retirement age to cover immediate expenses, it can have a big impact when you reach retirement, as you will have less money than if you left your retirement fund untouched.

The same is true if you start saving for retirement later in life. The later you start to save, the less you will have when you reach retirement. The older you get, you may also find that you have to put more into your retirement savings to try and make up for the years where you were earning an income but not saving towards retirement.

Members must realise that dipping into their retirement savings - which they are effectively doing by not preserving - is like borrowing from your future self, at a very high interest rate and with no intention of ever paying it back. We need to start being more self-disciplined with our finances in order to have a self-sufficient and enjoyable retirement.

On retirement you may take up to one-third of your investment in cash. The balance must be used to buy a living annuity. If the value of your retirement benefit doesn't exceed the amount stipulated by law at the time, you may take the full amount as a cash lump sum.

How to retire on very little money

If you are one of those people who have found themselves approaching retirement and realising that you don't have enough money to retire, there are things that you can still do to help rectify the situation.

First of all, if you are still in good health, you can defer your retirement. The key here is to develop a strategic plan to continue receiving an income to reach your goal. This can include semi-retirement or taking up a consultancy role, or trying something new that you are passionate about to bring in money.

The point here is to find a way to increase your income.

You may also need to make some financial sacrifices. This can including cutting your monthly costs. While it might be nice to have the large house and expensive car, as you get older these are not necessities, and downscaling can put a little extra cash in your pocket (or your retirement fund).

You could also sell additional furniture and items you have around the house that you do not need or use. Furthermore, you can try and cut the costs of your banking and medical aid fees by downscaling to a cheaper option.

However, it is important to remember here that the older you get the more you will probably need better health care.

Another vital point to keep in mind is that investing in assets that may produce a higher return to make up the shortfall is not always the wisest idea. In the short term, a high risk investment is more unstable, you need the long term growth to really achieve your retirement goal. Rather discuss your retirement goal (no matter your age) with a registered financial adviser who will be able to assist you in deciding on the best retirement savings options for you and help you implement them.

If you are determined to take on bigger risk investments, such as equities, rather put aside a separate amount in its own account, so that your retirement savings are not affected.

So, how do you strive for financial independence and enjoy your retirement? By starting to save for it now!