GRAYISSUE

February: A good month to review your retirement plans and bump up your retirement savings

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Don't kid yourself that retirement planning is for those nearing retirement; the decisions you make early on have the greatest impact on your investment. The sooner your plan kicks off, the longer your investment period, with more contributions and more time for the power of compounding to work its magic. However, current financial pressure, the instant gratification culture and the propensity to 'live in the moment' means that for many, retirement planning is simply not a priority. With a very small minority of South Africans able to retire comfortably, investors are advised to begin retirement planning sooner rather than later. As Jeanette Marais discussed in her December GrayIssue, planning is a critical factor separating those who are on track to meet their financial goals and those who are falling behind.

Begin with the end in mind

To plan effectively for your retirement you need to have an idea of what you are trying to achieve. The amount you will need depends on the lifestyle you are aspiring towards and how long you live in retirement.

To get an idea of how much you are aiming for you can do this simple calculation: look at your current budget and decide how you want or expect each item to change as your needs change. This will give you an idea of the percentage of your salary you will need during retirement. Keep in mind that inflation will be higher for some items than for others. See the text box alongside for some of the factors that may influence your goal. Once you are clear on your goal, you will also need to consider:

- How long you have until you retire
- How much risk you can stomach (this will affect your asset allocation decision)
- What range of potential after-inflation investment returns you could expect given your asset allocation decisions
- How much you can afford to save after other essentials

Consider using a retirement annuity fund

There are various savings products available. You need to carefully research your options as products have different benefits and restrictions. For example, the government encourages saving for retirement by offering tax incentives if you invest in a registered retirement fund, such as a retirement annuity (RA). The rigidity of RAs reduces the temptation to take payouts – you cannot access your money until you turn 55 unless you emigrate or have less than R7 000 across all RA accounts.

Key factors may influence your expected needs after retirement:

- **Housing**
  Do you expect to own your own home having paid off your bond? If so, you can remove home payments from your budget. If you expect to buy or rent a bigger home you need to increase your allocation for housing.
- **Transport**
  Will your car be paid off or are you planning on buying an expensive car that will need to be paid off during retirement?
- **Medical expenses**
  As you get older your doctor's visits, medication and/or medical aid contributions are likely to start increasing. In addition, medical inflation is usually higher than the average inflation rate. According to StatsSA it is currently almost 3% higher than the average inflation rate.
- **Education**
  Will you still need to pay your children's, or grandchildren's, school fees? Education inflation has remained almost 4% higher than average inflation over the long term.

Retirement annuities with an underlying investment in unit trusts also have several benefits over their old-school alternatives: You can choose your own underlying combination of unit trusts to suit your needs and risk profile. You can switch between unit trusts at no additional costs when and if your needs change. Most unit trust based RAs offer low product fees, no penalties for surrender or discontinuation and adviser fees are negotiable and transparent.

How much should you save?

A good investment plan is tailored to suit your personal circumstances: if you have missed the opportunity of starting to save when you started working or you currently can't afford to put away as much as you need to, your plan could be adapted to a later retirement date or larger contributions when you can afford to increase them. You should review your plan annually and change your contributions as appropriate. You may wish to speak to an independent financial adviser who will be able to help you design and maintain a plan.

If you are planning to start an RA, or make use of the tax concession for this tax year, please ensure that you invest prior to the end of the tax year on 28 February.

Commentary by Wanita Isaacs, Business Analyst, Allan Gray