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3 STEPS TO MASTERING A DEBT-FREE RETIREMENT

BY MARIA SMIT | CERTIFIED FINANCIAL PLANNER®, BRENTHURST WEALTH PRETORIA

Do you picture yourself entering retirement without the burden of loans or credit card debt, or is your reality a bit less optimistic? Often, the outlook for many South Africans isn't a debt-free one, but it doesn't have to be this way.

I'd like to share how, through some smart planning and disciplined action, you can have a debt-free retirement. If you're willing to make a few short-term sacrifices, I guarantee that your long-term future will be far brighter, where debt isn't eating into your retirement income.

1. STARTING YOUR DEBT-FREE JOURNEY

Here are the first few steps that will help get you to your debt-free goal, come retirement:

1. **FOCUS ON HIGH-INTEREST DEBT FIRST:** Pay off debt such as credit cards before anything else – this will save you thousands in interest.
2. **PRIORITISE RETIREMENT SAVINGS:** Contribute to your retirement fund, especially if your employer offers matching contributions. This is essentially free money!
3. **BUILD AN EMERGENCY FUND:** A safety net of three to six months of living expenses means you can avoid taking on new debt should an emergency arise.
4. **GET PROFESSIONAL ADVICE:** A financial advisor can help create a plan that's tailored to suit your specific circumstances, which makes your goals clearer and gives you peace of mind.

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Imagine a future where you're free to focus on that which truly matters to you. You can!

You can start today by speaking to a financial advisor who can help you to map out your debt and set your plan in motion.

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NOT ALL DEBT IS CREATED EQUAL.

"Good" debt, such as a home loan, may have potential benefits. For instance, if you own a property that generates rental income, the interest paid on the mortgage might offer tax deductions.

However, **high-interest debts**, such as personal loans and credit cards, should be avoided at all costs, especially when you're living on a fixed income.

2. MAKING THE MOST OF EXTRA INCOME

If you find yourself with some extra income – whether it be a bonus, inheritance or some other one-off windfall – consider using it to pay off debt and also to boost your savings. For example, **contributing to a retirement annuity (RA) is a smart move** because you receive a tax deduction, whilst only paying off debt offers no such advantage. Let's break this down:

As an example, let's consider two people who each receive a bonus of one month's salary in December. Their annual income totals R520,000, which includes their bonus. Both have R40,000 in credit card debt.

- Person 1 uses their bonus to contribute to an RA.
- Person 2 immediately pays off their debt.

Here's what happens:

- Person 1 gets a SARS refund of R12,760 by contributing R40,000 to their RA. This means they can use that refund to pay off some of their debt and still boost their retirement savings.
- Person 2 simply pays off R40,000 of their credit card debt.

By investing in an RA, Person 1 ends up reducing both their debt and boosting their retirement savings, while Person 2 only manages to pay off some of their debt.

To pay off your debt effectively, I suggest making a list of all your outstanding balances and ranking them according to the applicable interest rate.

Start by paying the minimum on each, then put any extra income towards paying off the debt with the highest interest. This strategy, often known as the "avalanche method," means you save in the long run because you're reducing interest repayments.

3. CREATING A SAFETY NET AND CONSULTING EXPERTS

A SOLID FINANCIAL PLAN FOR RETIREMENT ISN'T JUST ABOUT PAYING OFF DEBT, IT'S ALSO ABOUT ENSURING YOU'RE PREPARED FOR THE UNEXPECTED.

The best way to do that is to set aside an emergency fund that covers three to six months of living expenses. You should also consider different types of insurance to add an extra layer of security.

This may all seem daunting because there's no way to predict the future, which is why an outside viewpoint from an expert financial advisor can help put things into perspective, so that you're happy with the decision you're making.

Once you've cleared your debt, you can then focus on building wealth. Obviously, you want to make the most of your company pension plan (if you have one) or retirement annuities and funds, in the event of no company plan.

A smart way to start additional investments for your future is to make full use of your tax-free savings account. There are many benefits to the tax-free savings account, with the exemption from dividends, capital gains and other taxes being the most attractive.

Once you've maxed out that option, it's worth considering other tax-efficient structures for further investments, such as retirement annuities or unit trusts. Doing so can also help you to further diversify your investments so that your risks are spread as widely and as wisely as possible.

I understand that going into retirement debt-free takes a lot of effort and planning, but it's worth every sacrifice. **Imagine a future where you're free to focus on that which truly matters to you. You can! You can start today by speaking to a financial advisor who can help you to map out your debt and set your plan in motion**.

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MARIA is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters. She joined Brenthurst Wealth in 2019 and has been in the financial services industry since 2015, working as a liaison between financial advisers and clients, assisting in all financial planning related duties.

Maria obtained a BCom Economics degree from the North West University's Potchefstroom Campus. She also obtained her Postgraduate Diploma in Financial Planning from the University of the Free State and is qualified to give advice on all aspects of investing.

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