INVESTMENT REPORT

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THE POWER
OF INDEPENDENT ADVICE

4 OF THE BIGGEST RETIREMENT MISTAKES

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The reality for many South Africans nearing retirement is that they're filled with dread more than excited anticipation as they approach this stage of their life. Fear of the unknown, particularly their financial future, is often the source of this unease in what is supposed to be one of the most exciting chapters of anyone's life.

As you can imagine, spending the rest of your life counting your pennies and forever fearing that your savings won't sustain you, is no way to live.

If you've diligently saved or contributed towards a pension fund then you should be reasonably confident that you have enough savings to see you through your retirement. You can improve the odds, though, by avoiding the following common mistakes which I see all too often.

1. RETIRING TOO EARLY

We have this outdated notion in South Africa that it's feasible to retire at age 55. This is just not possible for the vast majority of us, for a few simple reasons.

The first is that the average life expectancy is now closer to 100 rather than the 85 years that has, for so long, been the accepted norm. That means your retirement savings have to sustain you for far longer than initially anticipated.

Consider this: if you retire at 55, it means you've probably worked for approximately 30 years and maybe only saved for 20 to 25 of those years. If you live to be 100 years your retirement savings will have to sustain you for an additional 45 years.

As you can see, the sums just don't add up for the most of us if you insist on retiring at 55. Arguing that you won't live that long, in my opinion, is foolish. You have to plan for any eventuality.

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Navigating your way towards and beyond retirement can seem daunting.

Speak to a certified financial planner, who is able to guide you along the right path so that your retirement outlook is filled with hope, rather than dread.

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2. GOING OVERWEIGHT CONSERVATIVE INVESTMENTS

I fully understand the desire by many people who, at retirement, want to invest a significant portion of their savings in cash or money market accounts, however, these make sense for short-term savings, but cannot be considered a viable safe haven from equity market volatility. The reason is simply that they don't offer above-inflation returns, so in real terms you're actually getting poorer by the day.

The reality is that you need to take on some risk in the form of equities if you expect your portfolio to see you through retirement.

An income fund still has its place in a portfolio, but over the long term you need higher risk assets if you hope to outperform inflation and sustain your draw-downs, otherwise you run the risk of outliving your money.

3. EXCESS CASH DRAWINGS AT RETIREMENT

I agree with withdrawing cash from your savings at retirement to settle debts such as a home or car loan so that your monthly costs are reduced, however, I see too many people use a chunk of their savings for an overseas holiday or some other extravagance they actually can't afford.

Celebrating your retirement with a trip around the world is a very romantic notion, but not when it costs you a couple of months' valuable income. If you are considering something like this, I'd strongly advise you to rethink the logic behind the decision.

4. NOT ADJUSTING YOUR LIFESTYLE

The biggest mistake I see people making at retirement is not scaling down on their lifestyle to match their income. In all fairness, I do think this is the most difficult adjustment to make. However, far too many people continue to live the lifestyle they were accustomed to before they retired, which they simply no longer can afford.

So, indulging "in" luxuries such as eating out a number of times a week or jetting off on holiday a few times a year just isn't sustainable. Some difficult choices need to be made, which might feel like the end of the world when you're 60 ,but your 80-year-old self will thank you one day. You have to live within your means. It's as simple as that.

Navigating your way towards and beyond retirement can seem daunting. It doesn't have to be so if you have the right partner at your side. Take the plunge today by speaking to a certified financial planner who is able to guide you along the right path so that your retirement outlook is filled with hope, rather than dread.

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