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Page: 36

MANAGING YOUR MONEY

Finances during retirement can be a huge source of anxiety. Experts give advice on how to manage yours successfully **By Richard van Rensburg**

WHEN you pictured retirement you probably imagined long, lazy lunches with friends and overseas holidays – but many pensioners discover the reality is a lot more complicated.

For most retirees, handling their finances poses the biggest headache as they try to adjust to life without a salary or other monthly income.

Here's advice to help you avoid the common pitfalls and ensure that your rands stretch far enough so you can do the things you've been dreaming of.

Draw up a new budget

Having a clear picture of your financial situation once you've stopped working is key to a successful retirement, says financial planner Warren Ingram, executive director of Galileo Capital and author of the book Become Your Own Financial Advisor.

He's been advising on retirement for more than a quarter of a century "and my happiest clients are those who've had a plan for their life after retirement".

Draw up a budget that reflects your new financial reality. You might have lost certain employee benefits after retirement, such as your employer's contribution to your medical aid, or cellphone and travel allowances, warns Sue Torr, managing director of Crue Invest. "These expenses will have to be absorbed by your budget."

Other than a monthly budget that lists your regular expenses, have a budget for unforeseen expenses. Also consider whether you need to plan for luxuries or unusual expenses – for example if your children live far away or overseas, you'll have to budget for travel.

Think about your car

Don't damage your long-term financial security by buying a new car that you can do without, Ingram warns. If you really need a new car it's best to buy it cash with savings you've put away specifically for this, seeing that you're not earning a monthly salary anymore.

Nico Swart, a lecturer at the school of economic and financial sciences at the University of South Africa (Unisa) and author of the book Personal Financial Management, says if you really can't avoid buying a car, choose a model that's smaller and more fuel-efficient.

He points out you could also consider cycling, walking or using public transport or taxis. Or consider becoming a one-car household if it's possible.

Consider medical costs

Don't cancel your medical aid when you retire, Swart says. Younger people can probably get away with being on a cheaper option such as a simple hospital plan but older people need more comprehensive cover because your medical expenses are likely to increase as you age.

And remember that the cost of medical care and services usually increases

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Page: 37

annually by more than the consumer inflation rate, Torr warns.

As you age, the risk of you or your spouse contracting a serious condition increases dramatically. Even if you have comprehensive medical cover, there might be additional health-related costs payable from your pocket, Torr says.

You may need frail care or assisted living later in life, which could cost tens of thousands of rands a month. Try to include this in your budget.

What about dependants?

Children, elderly parents or financially dependent siblings can put added strain on pensioners, Torr says. It's one thing to support dependants while earning a salary and quite another while trying to make your nest egg last.

If you want to continue supporting dependants after you retire, you need to come up with a strategy that takes into account their needs.

But, financial writer Sam Beckbessinger warns, always remember the instructions you're given on a plane: adults need to fasten the oxygen mask on themselves first before trying to help others. There's no point in being so generous that you risk your own financial security in the long run.

It's best not to sign surety for your dependants' loans at this stage of your life – things can easily go pear-shaped, ruining your golden years.

Do you still have debt?

You should ideally be debt-free by the time you retire, says Preenay Sathu, wealth manager at FNB Wealth and Investments. If you aren't, settle the debt as soon as you can. The so-called "avalanche method" is handy when it comes to ridding yourself of debt, says Beckbessinger, who's also a fintech entrepreneur.

List your debts from those with the highest interest rates to those with the lowest and start paying off the most expensive debt. Once that debt has been settled, use the full amount to pay off the second-most expensive debt, and so on.

It's one thing to support dependants while earning a salary and quite another to do so while trying to make your nest egg last

Will you move?

If you want to move after retirement, you should choose your intended retirement home in advance, Ingram says. If possible, buy the property before you retire and rent it out, or put your name on the list of a retirement home or village.

Bear in mind expenses such as the bond, levies and maintenance of the property, as well as moving expenses.

Make sure you understand the difference between the various retirement accommodation options, such as sectional title schemes and life rights, Torr says (see article on page 42).

Update your will

It's imperative that you and your partner think about what will happen with regard to your finances when one of you dies.

It's important that you each have a will and ensure that it's updated every two to three years and stored in a safe place. ●

Things to keep in mind

Ideally, you need to have the details of your retirement worked out at least five years before your retirement date. If you haven't done so and your retirement is imminent or has already started, you need to do it as soon as possible, says Sue Torr, managing director of Crue Invest.

Here are some tips:

- Get expert advice. Working out a detailed financial plan is daunting and it's best to get professional help. When looking for a financial adviser, "gain an opinion of your position from three different ones to get a sense of who will be best suited to manage your money," financial planner Warren Ingram says.
- Ask your financial adviser to prepare a few future scenarios to help you envisage how your finances will be affected by various circumstances. For example, your adviser can prepare scenarios based on moderate to high inflation rates, low to high investment growth, or according to various standards of living or life expectancy. That will show you how long your money will last in various circumstances and in relation to different kinds of budgets.
- When considering possible scenarios, err on the side of caution, Ingram says. "Approach retirement by planning for the worst," he suggests, because chances are you'll be pleasantly surprised when the outcome is more favourable than expected.
- Make sure your plan is tailored for you. "Remember, enough for one person isn't necessarily enough for the next," Suzean Haumann, financial planner at Brenthurst Wealth, says. "Your existing and expected lifestyle, debt and the changes you're willing to make all influence how much capital you'll need."
- Review and update your budget continually. "Because the cost of living continues to rise, it's advisable to re-evaluate your retirement plan from time to time," wealth manager Preenay Sathu says.