9 RETIREMENT

WILL I BE ABLE TO *retire?*

If you haven't given this much consideration, find a financial planner and get a plan in place. Right away.

our expert

Kim Potgieter
Certified Financial Planner®, director and head of retirement life planning at Chartered Wealth Solutions, author of *Retirement: Get More Meaning from your Money*

The big question…

How much is enough? There's no magic figure for the amount needed to retire comfortably – it depends what your life looks like. I have some clients who live on R100 000 and some who come out on R10 000.

We think of retirement as an economic event but it's also a major life transition – one of the hardest. Be prepared. I see people paralysed by the fear that they don't have enough. Stop procrastinating, take control, have a plan! Any plan is better than none.

It's useful to look at your current budget, for some idea. Yes, there may be fewer expenses when you're retired, but don't assume you'll be able to reduce your needs much, as costs like medical expenses can escalate.

Find a CFP

See a financial planner – a Certified Financial Planner (CFP), not a product salesman. A CFP will look at your expenses, your assets, your needs.

In terms of their fees, it's better to pay a fee for advice than to pay commission on products. That fee is probably one of the most important investments you make going into retirement; one wrong decision and you could pay too much tax, or you could have no liquidity, leaving you stuck in an emergency.

People are sometimes scared of financial planners because they have been burnt in the past, or know someone who has. I'd never stay with a financial planner who was more interested in my money than in me.

It's personal

Just looking at the figures is not enough. I use the analogy of a jigsaw puzzle. When you're building one, where do you start? With the picture, right? A holistic retirement plan first looks at the life you want and the money you have to see how your money can be invested to give you that life. Skipping that step leads to inappropriately placed investments. It's also vital to review your plan yearly; life doesn't always pan out the way you anticipate, so your plan has to be adjusted accordingly.

The time frame

Using financial planning tools, a financial planner can easily work out when your money will run out – say at 78. And though that might be beyond the life expectancy of the general population, chances are you'll live far beyond that. At our company, we tend to plan for a life expectancy of 100. Initially, clients would say, 'No way.' But now they all know people in their 90s.

Look at longevity in your family, your health, and the fact that women live longer. Then, markets do drop, so your investment needs meat on it, and your money has to be invested in such a way that if the market falls, you've got time for it to build up again.

When to start saving

Some companies have done away with pension funds. In this case, you will have to exercise discipline to save and make provision for yourself.

If you're in your 20s and you're investing in your pension fund at work and you're going to carry on all the way, you'll be all right. I say to young people, think of it as saving for freedom of choice. Or paying yourself first. Before you pay your bond, car or clothing allowance, pay yourself 10% first. So if you're in your 20s and you're putting away just 10%, you will have enough. You should also be putting away money for short- and medium-term goals.

Only starting in your 40s? You need to put extra away.

Many people cash in the money they've saved when they change jobs. So if they start saving only 10% of their salary in their 40s, it's not nearly enough. Don't go on buying material goods – save your money instead.

The best place for your money

The question is: where will your salary come from when you stop working? You need an investment that generates dividends or income that you can live off. People think their houses are an investment, but that doesn't provide an income. A rental property that pays you an income is a retirement asset. A living annuity is a retirement asset. Start with a retirement annuity because you get a tax rebate on that, depending on your tax rate. Next, invest in the market. Unit trusts are an option; they're liquid and, as opposed to a bank savings account, should keep up with inflation. Time in the market will allow you to do well.

Think of saving for retirement as saving for freedom of choice. Or as paying yourself first.

Tax-free savings

The objective of tax-free savings is to incentivise all of us to save. This means you are allowed to invest R30 000 per financial year tax-free, to a limit of R500 000 for life. Other investment vehicles – like retirement annuities – offer tax-free growth and tax breaks in certain circumstances. You're also entitled to an annual interest exemption of R23 800 under age 65. Don't purchase tax-free savings without getting advice from a qualified financial planner.

If you've left it a bit late

People who haven't saved enough tend to put their head in the sand, hoping the problem will just go away. But while you still have some control of your own destiny, while you're still healthy enough to work, or to downscale, that's when you should be making changes.

Your planner will help you make significant changes to ensure you don't run out of money. You could continue working beyond retirement age. You could take a part-time job; even if you're earning just R5 000 a month, it's better than drawing excessively from your retirement fund. You could downscale your home (note that moving to a retirement village doesn't usually cost less).

Life changes

• A new job

One option is to put the pension funds you've accumulated into a preservation fund. The transfer is tax-free, and this preserves your accumulated funds until you reach retirement age when you can take one-third as a lump sum and purchase an annuity with the rest. You also have the right to one withdrawal pre-retirement subject to tax. Another option is to transfer it to a retirement annuity, which will be treated in the same way at retirement but there isn't the option of that single withdrawal. If the fund rules permit, you may be able to transfer the pension fund to the new employer. The final option would be to cash the full pension and pay significant tax. Discuss your options with your financial planner before making a decision. This is under review by the Treasury; from March 2016 all retirement funds could be treated the same way.

• Divorce

The Pension Funds Amendment Act introduced a clean break approach, which means payment is made to the 'non-member spouse' immediately after divorce, whether it is a transfer to an approved fund or the benefit is paid in cash. This must happen within 60 days; after that, interest is due.

If you're married in community of property, the pension fund is split in half. If you have an antenuptial contract (ANC), the divorce order stipulates what portion of the fund is allocated to each spouse. If you have an ANC with accrual, it is treated the same way, but it could impact the size of an accrual claim.

• Stay-at-home mum

If you take a few years 'off' from work while the kids are young, preserve your pension fund while you are not contributing to it so that it carries on growing. The biggest mistake is to draw from it.

When the times comes

Lump sums at retirement (after age 55) are taxed according to the retirement tax tables. The first R500 000 is tax free.

The payout you receive depends on the type of fund you have. With a provident fund, you are entitled to the whole amount in cash, subject to paying tax on this. With a pension fund, you're entitled to one-third of the amount as a lump sum (again this will be subject to tax), which you would put into an interest-bearing but accessible account, because we all need liquidity in case of emergencies. With the rest, you have to purchase an annuity. With your annuity, you decide, with the help of your planner, how much you're going to draw – between 2,5 and 17,5% – each year. Many people take the full 17,5% but then their investment runs out within five years. We encourage our clients not to take more than 5% so that it stands a chance of continuing to grow.

Often people decide to renovate. But we would urge you not to overspend in your first year of retirement; remember, you are no longer earning a salary!

It's about more than money

Think about what you're retiring to. Some people have taken care of the money, but they haven't taken care of what they're going to do with their time. If you're miserable in your retirement, what was the point at all of working all those years and saving money, to come to *this*? For those who haven't saved enough, instead of tearing yourself apart about it and then letting your whole life go, appreciate the things that *are* working. That way, you'll be more positive – and then you will find ways to make money. People want you around when you can add value and you are positive. It's all about attitude. ✤

Visit retiresuccessfully.co.za to help you to think differently about your retirement.

Next month: Teach your kids to be money-savvy

PHOTOGRAPHS: JAN BOTHA PHOTOGRAPHY, GALLO IMAGES/ GETTY IMAGES/ FLORESCO PRODUCTIONS