

Investing to achieve your retirement goals

We all dream of being able to retire and live out the rest of our lives financially secure. In order to achieve that goal we must recognise that planning for retirement really starts from the first day we start working. We might not recognise it at the time, but the decisions we make from age 20 set the foundation for our retirement.

We believe that the best way to increase the chances of you having sufficient money for your retirement is to follow a disciplined investment approach. The following five-step process forms the basis of a disciplined investment approach:

- Step 1 Understand your current financial position
- Step 2 Set your financial goals for retirement
- Step 3 Put together a financial plan to achieve your retirement goals
- Step 4 Implement your retirement plan
- Step 5 Review your retirement goals and how you are doing.

Step 1 - Understand your current financial position

The first step is to understand what your current financial position is and you do this by preparing a balance sheet setting out your current assets and liabilities, and by preparing a budget that sets out what your current income and expenses are. This will help you understand how much you can afford to invest for your retirement.

Go to www.afonline.co.za for more information and tools to assist you assess your current financial position.

Step 2 - Set your financial goals for retirement

The second step is to decide at what age you plan to retire, and how much income you will actually need at retirement. The easiest way to do this is to express your needs as a percentage of your current salary. It is widely regarded that an income after retirement equal to 75% of your salary immediately prior to retirement is a reasonable target. You will see later that even this target is actually quite hard to achieve.

If, after having set your retirement goals, and having determined how much you actually need to invest in order to achieve those retirement goals, you realise that you don't have enough to invest, you either have to amend your retirement goals, or you have to explore ways of reducing your current expenses in order to be able to invest more for your retirement.

An example of a typical retirement goal may be, say, to retire at age 65 with an income equal to 75% of your pre-retirement salary.

Step 3 - Put together a financial plan to achieve your retirement goals

There are four key factors that will determine whether you will have sufficient money at retirement to live comfortably. These are:

1. How much you save;
2. How long you invest for;
3. What real rate of return you earn on your money; and
4. How you convert your accumulated retirement capital into an income after retirement.

The Retirement Projection Tool on www.afonline.co.za can assist you in understanding how the first three factors work together. The "Understanding the Retirement Projection Tool" brochure provides more information about the Retirement Projection Tool and how it works.

The "Replacement of Income - annuity options at retirement" brochure provides more information on the fourth factor.

There are a number of risks that could influence your ability to achieve your retirement goal; these include:

1. Death prior to retirement;
2. You becoming disabled and unable to earn a living, therefore being unable to save for your retirement;
3. You leaving the services of your employer - Refer to the "Options available on leaving your employer" brochure - and encashing your retirement savings;
4. You suffering a financial setback that affects your ability to continue saving for your retirement.

Your financial plan should include how you plan to reduce these risk factors - go to www.afonline.co.za for more information.

The table on the next page gives you an indication of what percentage of your salary you need to be saving to achieve a retirement income goal of 75% of your pre-retirement salary, assuming that you commence saving from the "current age" and haven't built up any retirement savings. These projections assume that you achieve a "moderate" real rate of investment return.

Required Contribution rate to achieve your retirement goal

	Planned Retirement Age - 55	Planned Retirement Age - 60	Planned Retirement Age - 65
Current Age - 20	19%	14%	10%
Current Age - 30	29%	20%	14%
Current Age - 40	61%	37%	24%

Use the online Projection Tool on www.afonline.co.za in order to set your own goals and formulate your financial plan to achieve those goals.

You may find that you cannot reasonably achieve your retirement goal by your planned retirement age, in which case you will need to either adjust your goal or defer your retirement (if possible). Your Human Resources Division will be able to confirm whether this is possible at your particular employer.

Step 4 - Implement your retirement plan

Once you have determined how much you need to save, what rate of investment return you need to earn in order to achieve your retirement goal, and how you are going to manage your risk factors, you need to implement your plan.

There are a number of options available to you should you wish to invest additional amounts for your retirement. Where possible, you should try and invest these additional contributions on a pre-tax basis. A "Pre-Tax" investment means that your contributions to this investment are tax-deductible. Generally the best option would be to approach your retirement fund trustees and establish whether they will accept any additional contributions to your retirement fund. Alternatively you may be able to invest additional amounts in a registered retirement annuity, which usually offers some tax advantages. A suitably qualified financial planner will be able to assist you in choosing the most tax and cost-efficient option for your particular financial circumstances.

Alternatively you may decide to invest other savings products, for example an endowment policy, unit trusts, a bank account or a portfolio of equities managed by a broker. Again, a suitably qualified financial planner will be able to help you choose the most appropriate option for you.

Step 5 - Review your retirement goals, and how you are doing

No matter how good a plan you have put in place, circumstances always change and you therefore need to regularly review whether your plan is still appropriate and whether you are still on track to achieve your goals. You should also periodically review whether your retirement goals are still appropriate, for example is your planned retirement age still appropriate or have you received a recent salary increase that might allow you to reduce your post-retirement income requirements.

We would strongly recommend that you consult a suitably qualified financial planner at least five years before your actual planned retirement date in order to review how you will be converting your accumulated retirement capital into an income after retirement - refer to the "**Replacement of Income - annuity options at retirement**" for more information.

If you would like more information about investing for your retirement, either log on to www.afonline.co.za or contact the Alexander Forbes contact centre on 0860 100 333.

AFOnline

www.afonline.co.za is Alexander Forbes's gateway to online values, information, financial planning tools, and related material, which has been designed to assist our clients with all of their financial planning needs, whether they be related to retirement planning, medical aid, death and disability cover, short-term insurance, estate planning, etc.

The importance of a financial planner

When making important financial decisions it is always best to speak to a suitably qualified financial planner. Professional assistance in managing your financial affairs can provide substantial long-term benefits to both you and your family. The financial planner will be able to help you formulate a personalised financial plan that maximises the probability of you achieving your goals. For more information about how to choose a suitable qualified financial planner read the "**Choosing a financial planner**" brochure, or log onto www.afonline.co.za.

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