IPFM
Long-term financial security through education and advice

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FINANCIAL SERVICES

Planning for your approaching retirement

You have spent years saving for your retirement, and the day is fast approaching. It is now critically important that you start planning your retirement. It is preferable that this planning starts at least five years prior to the actual date of your retirement, so if you have less than five years left, don't delay.

This planning should include issues like what you will be doing with your time and where will you be living. This brochure will focus on what you need to do to meet your retirement income needs.

There are five steps that you need to take in order to plan how you will meet your required levels of income. These steps may seem obvious but not many people actually take the time to follow these steps and, therefore, many people unfortunately make poor decisions that affect their financial well-being during their retirement years.

Step 1 Understand your current financial position
Step 2 Determine what your retirement income requirements are likely to be
Step 3 Put together a financial plan of how you will a) achieve those anticipated required levels of income, and b) how you will be managing the risk factors
Step 4 Determine what (if anything) you need to implement now in order to achieve your required level of income
Step 5 Review your income levels, goals and how you are doing

Step 1 - Understand your current financial position

The first step is to get an understanding of your current financial position, in particular your current assets (e.g. your house if you own one) versus liabilities (e.g. the outstanding amount on your bond, if applicable).

You should draw up a balance sheet setting out your current assets (including retirement savings in your retirement fund, and any other retirement fund, e.g. preservation funds, retirement annuities, unit trusts, and others) and your current liabilities (debts). You should also determine what portion of these assets can be converted into cash, and which must be used to purchase an annuity. (This will be determined by the type of retirement fund that you belong to.) Your first priority must be to settle all your debts, and therefore the difference between your assets and your liabilities is what you could use to live off (more about that later).

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

Step 2 - Determine what your post retirement income requirements are likely to be

Next you should draw up a budget that sets out what your current income and expenses are. You should then prepare a list of your anticipated income (at this stage ignoring your retirement assets) and your anticipated expenses. This should be broken down into essential expenditure and "nice to have" expenditure. It is hoped you will be able to generate sufficient income from your retirement assets to cover your "nice to have" expenditure but, if not, you will have to decide what you can cut back on.

You should take into account the risk factors highlighted under Step 3.

Step 3 - Put together a financial plan of how you will a) achieve those anticipated required levels of income, and b) how you will be managing the risk factors

You should now have a good idea of what level of income you will require, and what assets you have to be able to generate that income for the rest of your life. Remember that you should plan to settle all your debts first. You now need to understand what options are available to you to convert your assets (after settling your debts) into an income, and what the implications of each of those choices are.

Whilst you could always invest your retirement savings yourself (e.g. in a bank account), or purchase a business to generate an income, this option is not without significant risks, and we will therefore concentrate on the more prudent approach of purchasing an annuity. An annuity is a contract that pays you a regular income similar to a salary - for the rest of your life (and your spouse's life if you elect that option).

There are many different types of annuities that will provide you with a wide spectrum of income levels. These are set out in the "Replacement of income **annuity options at retirement**" brochure or log onto **www.afonline.co.za** for more information on these. Examples of these annuity types include conventional annuities, with profit annuities, lifestage annuities and living annuities. You should choose the annuity that will provide you with the required level of income. A suitably qualified financial planner will be able to get you quotes from different service providers. If there are no annuities that you can purchase that will give you your required income you need to go back to Step 2 and look at what expenses you can cut. You may even have to look at what other assets you could sell in order to generate an income, for example you may have to sell your house and purchase a smaller house. The difference in price can be used to generate your required income.

If you still cannot generate the required level of income, you need to determine whether you can defer your retirement, or whether you are able to generate income by, for example, taking on part-time work, renting out a room in your house, or generating money from a hobby.

There are a number of risks that could negatively affect your ability to maintain your financial well-being in your retirement years. These include:

1. Living too long (strange as it may sound);
2. Suffering from poor health and therefore incurring high medical expenses;
3. You incurring unanticipated expenses; and
4. The effects of inflation increasing your expenditure without a corresponding increase in your income levels.

It may be appropriate to get the assistance of a suitably qualified financial planner to assist you with your retirement plan.

Step 4 - Determine what (if anything) you need to implement now in order to achieve your required level of income

You may think that you need to wait for the day of your retirement before taking any steps to help secure your post retirement income, but that is not necessarily true. For example, if you have already decided what type of annuity you are likely to purchase on your retirement, you should (if allowed) choose an investment portfolio that is matched to that annuity type or minimises the risks associated with purchasing that annuity type. For example, if you are planning to purchase a conventional annuity, you may want to consider switching to a more conservative investment strategy as you approach retirement. This will reduce the risk of a market correction just prior to your retirement. Alternatively, if you are planning to purchase a living annuity and will leave your assets invested in a market-related portfolio, it would make sense not to switch to a more conservative portfolio prior to retirement as you are likely to just switch back into the market after retirement.

If you need to find alternative forms of income, through for example working part-time, you can already start acquiring the necessary skills, or maybe even start speaking to potential employers.

Step 5 - Review your income levels, 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 if your income requirements have changed.

If you would like more information about planning for your approaching 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.**