10 Considerations before putting together your retirement plan

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Retirement is not a once-off event, and planning for it shouldn't be, either. Consider these 10 factors before you get started.

Retirement consideration #1:
Build that nest egg

Saving for retirement gives you peace of mind that you will retire financially ready to pursue those dreams you have been working for. “The right time to start thinking about a retirement plan and saving for retirement is once you’ve started earning an income,” says Palesa Mtimkulu, distribution support specialist at Glacier by Sanlam. “Planning for your retirement early helps you to intentionally manage your money with a goal in mind, and build strong savings habits to adequately make provisions for your future.”

Retirement consideration #2:
Know your needs…

Your needs in retirement could range from your daily expenses such as food, fuel, medication, home and vehicle maintenance, to monthly overheads like rental or bond payments, medical aid premiums and insurance, to name a few… The list is unique for every individual, and should be considered as part of your post-retirement budget when planning and saving for it.

Retirement consideration #3:
… and your wants

You’ll have worked hard for your retirement; make sure you’ve considered how you want it to look and feel to give yourself enough time to plan adequately for it. “Whether you’d like to travel, take up a new hobby or work part-time, identifying your retirement lifestyle goals will give you an idea of the income level you’ll need during retirement,” says Palesa.

Retirement consideration #4:
Your dependants

It’s important to consider any dependants that rely on your income. If you have a partner, children or other dependants, their welfare and education costs may also become a need your income would have to cover. Have a conversation with those who rely on your income to fully understand how these expenses factor into your retirement planning.

Retirement consideration #5:
Emergencies

Don’t forget to factor in unforeseen events. “Setting up an emergency fund in a solution like a Glacier Investment Plan that can easily be accessed during your retirement years can provide additional liquidity to support you on rainy days or when unexpected expenses arise,” she says.

Retirement consideration #6:
Your legacy

It may be a priority for you to leave a portion of your savings to your dependants after you’re gone, which would influence how much you save, and your choice of retirement income solution. “If this is the case, you could consider using a portion of your retirement savings to purchase a living annuity or an income with a capital protection plan that will pay or transfer any remaining capital after your death to your nominated beneficiaries or estate,” says Palesa.

Retirement consideration #7:
Get tax-smart

Tax efficiency should be a consideration, both while you’re saving up for retirement, and when you draw down an income during retirement. Depending on your savings goal and the existing retirement savings you’re contributing towards, you may choose to invest in a second solution, like a tax-free savings account (TFSA), for example, to supplement your income. “You can access the money in your TFSA at any time, and it is free of dividends tax, income tax on interest, and capital gains tax on withdrawals,” says Palesa. This makes it an ideal investment to use to supplement your retirement income.

“However,” says Palesa, “it’s important to remember that a TFSA has a lifetime contribution limit of R500 000, so you may want to consider other income-producing solutions, too. You can also save in a retirement annuity fund, where contributions are tax-efficient up to a legislated limit.”

At retirement, you can withdraw up to a third of your retirement savings as a cash lump sum, and then need to reinvest at least two thirds in a retirement solution, from which you will draw down a retirement income. You can choose to invest your retirement savings in a life annuity, living annuity or a solution that combines these two options, giving you the best of both worlds. “The retirement tax on cash lump sums and the income tax on an annuity income are withheld by your fund or insurer, and only the net amount will be paid to you,” notes Palesa. “If you have a capital amount available to you at retirement from your own personal savings (not retirement fund savings), you can use this to purchase an optional income-producing solution to complement your retirement income," she adds.

Ask your financial adviser how best to optimise your financial planning for retirement in a tax-efficient way.

Retirement consideration #8:
Planning is a work in progress

Your retirement planning needs to factor in the reality that your plan can change. "For this reason, it is important to regularly meet with your financial adviser to ensure that your retirement plan remains relevant to each stage of your life and continues to adapt to any changes you experience (e.g. children, divorce, change in financial circumstances, death of a partner)," says Palesa.

Retirement consideration #9:
Your risks

With the uncertainty of the future comes the need to plan for all the risks associated with it. Two risks to keep in mind as your retirement draws near are longevity risk and sequence risk.

"The timing of when you start to draw an income in relation to market performance is an important factor to consider," says Palesa. "Starting to draw an income when the market is performing poorly and subject to high volatility can significantly impact the value of your retirement capital available, and result in higher-than-expected drawdown rates, which can, in turn, reduce the longevity of your savings." This risk is known as sequence risk, and is what Palesa suggests discussing with your financial adviser as you approach retirement to ensure you've explored all available options to mitigate this risk. Having more than one source of retirement income that you can draw from can help mitigate this risk.

You should also consider your potential lifespan, and how your retirement income solution manages the risk of outliving your savings. Palesa explains how a combined solution, like the ones offered by Glacier, is tailored with this in mind: "If your retirement savings are used solely to purchase a living annuity, in which the retirement income is not guaranteed, the underlying capital could be depleted by your chosen income drawdowns and market performance. You may want to consider including a guaranteed component, like a conventional life annuity, in which the insurer bears your life expectancy risk and guarantees you a predetermined income until your death (or that of your surviving partner)."

Retirement consideration #10:

The right retirement income solution for you

There is no one-size-fits-all solution when it comes to planning adequately for your retirement income; you need a tailored, sustainable one suited to you. “Combining a variety of retirement income solutions may increase your odds of achieving a sustainable retirement income, as it can be designed to meet a range of different income requirements and help you realise your optimum retirement years,” Palesa says.

Using the platform, your financial adviser can access a portal to the widest range of leading local and offshore funds for pre- and post-retirement investing, all in one place. This means they can customise your investment selection for ultimate personalisation. “With the help of a financial adviser, you can explore the various compulsory and discretionary savings options available on the Glacier platform to come up with a personalised solution that offers the optimal level of flexibility, the required level of security, and matches your retirement planning needs,” says Palesa.

And when the time comes, you can benefit from a smooth transition between saving and drawing down an income, so you can focus on what matters most – enjoying your retirement.

Ask your financial adviser why you’re not with Glacier by Sanlam

Please consult with a financial adviser before you take any action regarding your savings and investments.

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07
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Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07
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Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
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