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Choose your retirement adventure

IN THE popular *Choose Your Own Adventure* books of the 1990s, readers could choose from a selection of scenarios, each with its own ending – all in one book.

Retirement can work in a similar way. You are faced with choices that will affect how your golden-years story plays out. Did you choose to start saving early on? Did you spend your discretionary savings or invest them? Did you withdraw more than the recommended amount? The choices you make will have a major impact on how your retirement adventure unfolds.

Glacier by Sanlam recently conducted in-depth, face-to-face interviews with 82 South Africans who had retired successfully. The "Through the Years" research looked at the choices these retirees had made. Based on this and other research, here are some of the most common scenarios from which to choose when planning for retirement.

Rands & Sense

A regular guest column by industry experts on how to manage your money.

Patrick Sheehy

Chapter 1. When will you start saving for retirement?

Scenario 1: You save early on. You know that 25 (or earlier, if possible) is the optimal age to start saving for retirement, because it enables you to capitalise on compound interest.

You work with a financial adviser who has a holistic understanding of your short- and long-term financial goals, and you aim to contribute at least 15% of your annual salary to reach your retirement-savings goal.

Your financial adviser invests your funds in high-growth assets, and your savings grow considerably over 40 years. As your salary increases, you contribute more, and you put a portion of your annual bonus towards the cause.

The following example illustrates the benefits of starting to save early: if, at age 25, you save R100 a month for 40 years, you will retire with the same amount of money as someone who had to save R850 a month (8.5 times more) for 20 years, because he or she started to save at 45. (The example assumes a return of 10% a year.)

Scenario 2: You leave saving for later. You haven't saved enough and you're close to retirement. You're going to need a smart strategy if you want to maintain your lifestyle in retirement. This may involve a thorough examination of your budget and spending habits, to find more funds for your retirement savings.

You'll need a carefully thought-out income withdrawal strategy once you retire, to ensure your withdrawals don't exceed the returns you earn on your investments. You could take on a "gentler" secondary career, working part-time, to supplement your pension after retiring.

You can catch up, but it takes effort and expert guidance.

Chapter 2. How will you use your lump sum on resignation and retirement?

Scenario 1: You invest your lump sum. When you leave an employer, you preserve your retirement savings, allowing this money to grow until you retire.

Later, when you retire, you work with a financial adviser to decide how much, if any, of your retirement capital to withdraw as a cash lump sum. You invest the lump sum wisely, and buy a suitable annuity with the rest of your capital.

Your adviser determines how much of your lump sum you should withdraw, based on:

- Tax considerations;
- Your liquidity over the next 20 to 30 years (what you will need cash for); and
- Property or other assets you're considering investing in.

Scenario 2: You blow your lump sum. Many people are so overwhelmed by the size of their lump-sum payout that they are lulled into believing they can spend it – or at least a significant portion of it – while still having enough capital for a reasonable income for the rest of their lives.

If you spend your lump sum instead of reinvesting it, you should consult a financial adviser as soon as possible to understand the best options for growing your remaining capital.

As was the case in Chapter 1, you're going to be playing catch-up, so you'll need to adjust your investment and withdrawal strategy accordingly.

Chapter 3. What is your income-withdrawal strategy?

Scenario 1: You stick closely to the recommended income-withdrawal amount. Your savings seem flush, so you're tempted to withdraw more, but you know you need a responsible withdrawal strategy to sustain your retirement income for the rest of your life.

You work with a financial adviser to ensure you have a sustainable and growing income that provides you with sufficient funds to cover your monthly needs.

You understand the difference between essential expenses (such as rates and taxes, food and health care) and non-essentials (hobbies, travel and "nice-to-haves") in retirement, and plan and spend accordingly.

In conjunction with your financial adviser, you:

- Create your withdrawal strategy, and review it regularly;
- Review and manage your investment strategy;
- Examine your essential and non-essential expenses; and
- Devise a new strategy if your needs change.

Scenario 2: You draw down too much, eating into your capital. I've seen many clients with a withdrawal rate of between 8% and 15% (the permitted maximum rate is 17.5%), which eats into their capital early in retirement. If you're withdrawing too much, you may not be able to sustain an inflation-linked income, and you may have to adjust your lifestyle in the future.

You may have to sacrifice some luxuries to supplement non-essential costs, but even your essential spending may come under pressure if you're not managing your withdrawals responsibly.

To maximise growth on retirement capital, some advisers may put clients with aggressive drawdown needs (for example, 15%, which is three times the recommended limit) in high growth assets, but this can mean increased exposure to market volatility. It depends on the client's risk appetite and whether stability is, in fact, the better option.

Conclusion

Your retirement is what you make it. If you make the right choices, you will have the adventure of a lifetime.

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