Is it time to increase the retirement age in South Africa?

A longer life expectancy coupled with challenging time means relooking at your retirement planning and changing the way you think about your retirement age. So, what is key to getting it right? Experts share their insights.

Retirement reimagined

The way you think about retirement makes all the difference in ensuring yours is a successful and fulfilling one. To adapt and succeed, a change to our traditional mindset is necessary. “Retirement is a life stage, not a once-off event. It’s not something that just ‘happens’,” says Patrick Sheehy, Head of Product Management at Glacier. “How well you manage financially during this life stage depends on the plans you had in place during your working life i.e. how much you saved, and importantly, the plan you lay out for your retirement,” he adds.

Where that life stage begins, falls more into your hands now than it did before, and as Lenwhin Arendse, Managing Director of Aspire Human Capital Management puts it: “The first challenge to overcome is our conditioning as a society to relate a certain age to retirement.” For many, a new longer life means that working after age 60, 65 or even 70 is the only way to supplement your retirement savings. The good news is that with the right mental shift, it can be as fulfilling as your working years.

Adapt to thrive

Patrick outlines these four key principles for making a success of retirement planning for this life stage, both financially and mentally:

Principle #1: Keep the plan and the planning holistic

“[Your plan] can’t be just about financials. It has to be holistic and structured within the means that are available to [you],” says Patrick. Holistic planning also takes into account how you manage your lifestyle, your own physical and mental stimulation needs, and those of your dependants. As these needs change, so will your plan.

Principle #2: Play open cards

Whatever your financial situation at the start of your retirement, don't hide from it. Conversations with your partner, your financial adviser, your kids and with your life coach or retirement coach need to be honest and open. "You can't change the past. You need to look forward, acknowledge what you have, and the lifestyle you may need to adapt to," says Patrick. "Discuss it with your partner and start formulating your plan together – preferably before the retirement date."

Principle #3: Don't go it alone

Retirement can be overwhelming. Adapting to the changes ahead of you will take time and guidance, so lean on professionals who can help inform and guide the change management you'll need to consider as you step across the retirement threshold. Your finances are also entering a new life stage, and you'll need to make important decisions about these too. "You may not be able to undo many of these financial decisions," cautions Patrick. "Invest in educating yourself about your options, so that when you have those conversations with your financial adviser, it's not a one-way conversation and you can have a robust discussion about it."

Principle #4: Stay involved in your plan

As your life changes, so will your plan, which is why it's important to adapt it to keep it relevant. "Be alert to how your plan is performing against your expectations," says Patrick. Have you factored in the time value of your money and whether your savings are protected from inflation? How can you manage your income stream for optimum longevity? Are your tax and estate planning needs taken into account? Asking these questions helps you stay involved in your retirement planning.

Income solutions

In South Africa we have a variety of retirement income solutions, each designed to meet a range of income requirements. Every individual is different; selecting the right combination of these retirement income solutions to yield the best outcome for your income needs is a conversation between you, your partner and your financial adviser.

Living annuities

A living annuity is invested in market-linked underlying investments – allowing you to benefit from the returns of an investment portfolio with market exposure. “Living annuities have many advantages including growth opportunities, flexibility and the ability to leave a legacy,” says Patrick. “But at the same time, you as the investor take on the risk in your personal capacity. This includes market risk i.e. a market downturn that could result in a drop in your capital, as well as longevity risk, which is the risk of outliving your money.”

Life annuities

A life (or guaranteed) annuity gives you the security of knowing you have an income for life. However, unlike with a living annuity, your capital in a life annuity cannot be left to beneficiaries when you pass away, and you can’t adjust your income, although you can select to have the income increased every year by a certain percentage. You also have the option to choose a joint annuity, which means your partner will receive an income after your death.

There’s no right or wrong answer when trying to decide on whether to select a living or a life annuity. Everyone’s needs vary and the option you select should be the one that best suits your needs. “It’s possible to start out in a living annuity and move to a guaranteed annuity at a later stage,” says Patrick, “but not the other way around, so it’s important to get advice upfront before making any decisions.”

There is no single solution that can meet all of a retiree’s possible needs, and those who want both security and growth can achieve this by combining different solutions to address their needs. Many retirees use a guaranteed annuity to protect a level of non-discretionary expenses, and invest in a living annuity to provide for additional income where they have more scope and want to think about leaving a legacy, says Patrick.

The new retirement mantra: stay relevant…

In Andrew J Scott and Lynda Gratton’s *The New Long Life*, the professors of economics and management practice respectively at London Business School look at not just surviving but flourishing in a changing world. They suggest that our longer lives and greater technological disruption will mean more career shifts and transitions. “At times this will mean that you will need to upskill to safeguard your role while at other times you will need to reskill – to move into a completely different type of work,” write the authors. Other than to stay relevant, reskilling could be necessary if you don’t see yourself being able to meet the demands of your current job into your later years. “Physical activity and energy required, long hours or high stress levels are examples of factors which may not be sustainable in the long run for both physical and mental health reasons,” says Nike Wadds, Director at Stand Tall Consulting. “This will require a refocus and shift in your career to some degree.”

Whether you're considering semi-retirement or continuing to work part-time, further education is what will keep you relevant for the evolving (and competitive) job market. "Since jobs will be displaced in the future of work, but not necessarily all the skills that make up a particular job, the way you think about what jobs you are able to do should change to what skills you have that can be employed," suggests Lenwhin. Education into your later years not only ticks the upskilling box, but will maintain that all-important mental stimulation you've been used to throughout your career, which has its own rewards for your overall health.

The novelty of the new longer life expectancy is further layered with the constant challenge of youth unemployment, particularly in South Africa. Knowing that you need to continue earning to supplement your income, and are competing with those entering the job market, means you need to have a competitive edge. "You can't take it for granted that your additional length in experience will clinch the deal," says Nike. "If you want to succeed and remain competitive, you need to invest time in bettering yourself to ensure your expertise and skills remain current and sought after."

… But also commit to better later years

Delaying your retirement, if embraced positively, can be not only financially rewarding, but mentally and emotionally satisfying too. "It is important to focus positive energy into your later life career goals, doing something you would enjoy doing and that would still ensure a good work-life balance," says Nike. "If you hate your job at 45 or 50, now is the time to start thinking about making some positive career changes to ensure happiness and success in later life." While a 'forced' career change to ensure your own financial sustainability into later years can be daunting, there are some advantages not to be overlooked. Your time is your own, so you could have more flexibility to work shorter hours and still pursue interests that wouldn't have necessarily generated the income you would've needed during your younger years.

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