5 critical steps to take now for your dream retirement later

Retirement planning is one of the most important aspects of a comprehensive financial plan. And often, we think that we still have time because nobody plans to retire tomorrow. However, you will have to protect and grow your income to provide for yourself in your retirement years.

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What do you need to consider when you think about your retirement planning? What can a comprehensive retirement plan offer you? How will it benefit you?

This can be done through several avenues: Your employer's retirement fund, unit trusts, retirement annuities, equity stocks, and other safe investments are a great place to start. If you are still young, you could try investments that match your risk profile. However, it is always best to take this under the advisement of professionals who understand the ever changing investment market so as to limit your risk and increase your returns.

Independence at retirement

Saving for retirement means that you do not become dependent on your children or other people when you retire. For your dream retirement, would you not want the freedom to live the life you are currently dreaming of? Having to rely on others can cause significant emotional distress when you are meant to relax and enjoy your well earned rest.

Maintaining your lifestyle

When you retire, your cost of living increases due to medical inflation and the likelihood that you will require more medical care. And as we have seen the last couple of years, everything is just getting more and more expensive. Be prepared for these inevitable changes by planning for your retirement today.

Contributions reduce your taxes

Your monthly investments towards retirement could reduce your taxes while you are still earning a salary. This adds up to great savings.

One of the most challenging aspects of creating a comprehensive retirement plan is striking a balance between realistic return expectations and a desired standard of living. We believe that the best solution for this is to focus on creating a flexible portfolio that can be updated regularly to reflect changing market conditions and retirement objectives.

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Determine your needs at retirement

At what age do you plan to retire? Most people retire at age 65. Currently, the target life expectancy for calculating income in retirement in South Africa is around age 90. This means that while working, you need to make provision for 25 years' worth of income.

What monthly income will you need at retirement? A general guide to go by is 75% of your current salary. Prepare a budget of your income (for example, rental income, interest income) and expenditure at retirement in order to determine the monthly income you will need when you have retired. Keep in mind that some expenses might decrease at retirement, whilst expenses such as medial aid might increase.

Having an accurate estimate of what your expenses will be at retirement is so important because it will affect how much you withdraw each year. If you understate your expenses, you easily outlive your retirement income, or if you overstate your expenses, you can risk not living the lifestyle you dreamt of.

Determine how much you have saved and also the future value of your current savings

In many cases we have seen that savings in an employer's retirement fund is the only retirement savings people have and these will often not be sufficient at retirement. You can determine how much you must save with the help of your financial advisor. They will acquire the statements of your current investment products or retirement funds and do a projected value calculation in order to determine what will the future value of your capital be of you continue saving as you currently do.

Determine if your current savings will be enough to meet your needs at retirement

A shortfall/excess calculation can be done by your financial advisor to determine if you will have enough capital to meet your needs. If there is a shortfall, your advisor can calculate how much should be saved extra each month to have enough capital at retirement to meet your income needs and retire comfortably.

Structure a financial plan

Together with your financial advisor it is important to design an investment plan for your future savings. Together you should decide on the investment vehicles that will best suit your needs. You should have a well diversified portfolio that suits your time horizon and risk profile.

The longer the time from today to retirement, the higher the level of risk that your portfolio can withstand. If you are young and have 30-plus years until retirement, you can have the majority of your assets in riskier investments, such as shares.

You need to make sure that you are comfortable with the risks being taken in your portfolio. Do not react to daily market noise. Markets will go through long cycles of up and down and, if you are investing funds you will not need to touch for 40 years, you can afford to see your portfolio value rise and fall with those cycles.

Minimise tax obligations: Your financial advisor can assist you understand the tax strategies you can personally take advantage of while you work together to develop your wealth and secure your dream retirement.

Stay on top of estate planning

Estate planning is another key step in a well rounded retirement plan, and each aspect requires the expertise of different professionals, such as lawyers and accountants. Life insurance is also an important part of an estate plan and the retirement planning process. Having both a proper estate plan and life insurance coverage ensures that your assets are distributed in a manner of your choosing and that your loved ones will not experience financial hardship following your death.