Dreaming of retirement at 60? Don’t. In fact, you should think twice about retiring at all.

So says Prof Niel Krige, who lectures on Portfolio Management and International Finance at the University of Stellenbosch Business School.

It is a commonly known fact that only 6.5% of South Africans can fund their retirement at the age of 65. Others have made provision for their retirement, but certainly not enough.

“These people should continue working, even up to the age of 75, if possible and if their health allows this. Rather scale down on the amount of work, but don’t retire. Many people who have retired too early start realising that they don’t have enough money only ten years after they have retired. By that time they are too old to return to the job market,” says Krige.

The topic of retirement was discussed at a recent USB Leader’s Angle presentation on retirement where Tania Rossouw from Old Mutual Private Wealth Management said that one’s biggest asset is not your house or car, or even a substantial pension. “You are your greatest asset. You have the ability to earn an income which gives you the ability to invest in your retirement. So, your salary is your road to retirement,” she said.

Many people close to retirement are finding themselves...
< in a tough situation at present. International markets have dropped by around 40% over the past couple of months. Will they be able to wait for the markets to recover, bearing in mind that shares are a long-term investment?

Says Krige: “This situation is painful for those about to retire. These people should simply sit it out and wait for the markets to recover. If they restructure their portfolios now, they will lose out on the opportunity to benefit from the recovery. Adopt a buy and hold strategy because shares as an asset class will grow over time.”

In South Africa, 40% of all deaths are not natural deaths.

Another speaker at the Leader’s Angle presentation on retirement funding, Nico Coetzee, from an investment company said: “There is a huge savings gap among South Africans and many elderly people are in trouble. Professionals need to be prepared for the five to fifteen years post-retirement.” He advised that, instead of jumping about, investors must only change their portfolios when their personal circumstances change.

Krige said the next couple of months will be a golden opportunity to purchase shares at low prices for those who have cash at their disposal.

Another group of people who are battling to make ends meet are those who were forced to retire at age 55 owing to affirmative action.

“However, people have options,” says Krige. “There are opportunities for those who are prepared to show spirit and work hard, even after they have reached their retirement age.”

Life expectancy should also be taken into account in retirement planning. Health problems such as HIV/AIDS are causing people’s life expectancy to drop, but there is an assumption that professional people’s life expectancy is increasing. This is currently being investigated by a group of MBA students at the USB.

When asked what vehicles people should use to accumulate capital for their retirement, Krige said he is still in favour of retirement annuities as they offer a disciplined way of saving while “protecting people against themselves” as they cannot access this money prior to retirement.

In addition, people have to take into account the effect of low investment returns, high inflation, the high cost of living, and accessibility made it possible.

The two Leader’s Angle speakers, Rossouw and Coetzee, also stressed the importance of risk cover after retirement.

In South Africa, 40% of all deaths are not natural deaths. The harsh reality is that one in three men and one in four women will suffer from heart disease before the age of 60, but although 80% of heart attack patients survive they often have complications. Crime and the risk of developing life-threatening diseases with complications are more compelling reasons to take out risk cover and life insurance. A total of 28% of all deaths in South Africa are caused by accidents, while 11% of deaths are caused by crime and violence. People should therefore cover their risks, even after retirement.

Financial provision for retirement is not easy. People don’t save enough, or they start too late or retire too early. In addition, people have to take into account the effect of low investment returns, high inflation, the high cost of investment products and many risks.

The bottom line? Cover your risks. And don’t retire if you don’t have enough money.