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DON'T BELIEVE THESE 6 COMMON RETIREMENT MYTHS

By **Sonia Du Plessis,** Certified Financial Planner® Brenthurst Stellenbosch

Far too many people see retirement planning as a topic shrouded in mystery and myth. It's no wonder so few South Africans will experience the comfortable retirement they deserve. All too often, fear of the unknown paralyses us into making wrong decisions or taking no action at all.

The reality is not nearly as scary. If you stick to your financial plan, you should be able to meet your retirement goals. The trick, however, is to have a financial plan you can follow.

I work with investors daily who have come to appreciate the power of a financial plan. Many had previously been too afraid of making the wrong decisions, but now they are aware of their financial goals. Most importantly, they understand their progress along the journey and know what steps to take if they veer off course.

It's surprisingly easy to lose your way if you make uninformed decisions. To help you stay on the right path, I will discuss 6 common myths that could lead you astray, if you believe them.

By delaying saving towards your retirement until you earn more money, you're losing out on the power of compound interest and the value of investments growing over time.

IN THIS ISSUE

Planning for your retirement shouldn't be a guessing game. Hopefully, these tips on retirement myths will help you understand some of the pitfalls that await you if you're not properly prepared.

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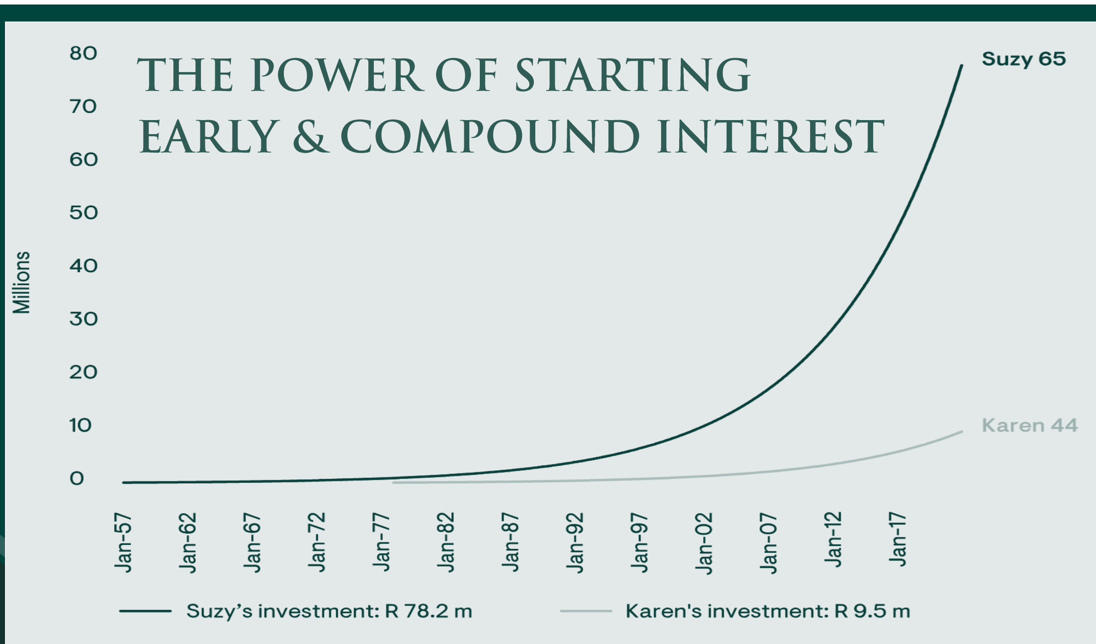
MYTH 1: I'LL DELAY SAVING UNTIL I'M OLDER AND EARN MORE

The major problem with this thinking is that you're losing out on the power of compound interest and the value of investments growing over time.



SUZY'S INVESTMENT: R 78.2M

KAREN'S INVESTMENT: R 9.5M

COMPOUND INTEREST CAN DRAMATICALLY IMPROVE INVESTMENT OUTCOMES.

The above graph shows that by investing R1,000 a month, <u>from birth to age 65</u>, Suzy's investment – growing at 10% per annum – AMOUNTS TO A STAGGERING R78.2 MILLION (from a total contribution of R780 000).

Karen, who also invests R1,000 a month, <u>only starts investing at 21</u>. Her investment also grows by 10% per annum, but she ends up with significantly less at retirement age, NETTING ONLY R9.5 MILLION (from a total contribution of R528 000). *Source: Ninety One*

Starting early in your career allows you to take a more aggressive investment approach that will deliver greater returns over the long term. Balancing debt payments with retirement savings is possible and advisable, especially considering the increasing life expectancy. Human beings are creatures of habit; we need to start the habit of saving as early as possible – as soon as you receive your first salary. Also, don't sell yourself the lie that you don't have the cash flow to save. Prioritise yourself, cut down on some luxuries and start by saving a small amount.

MYTH 2: MY COMPANY PENSION WILL TAKE CARE OF MY RETIREMENT

The danger of believing this myth is that you might find out too late that your company pension won't be enough to see you through retirement. You could avoid this pitfall if you have a financial plan confirming whether you're on track.

Sadly, the reality is that company pension funds do not always provide enough for you to retire comfortably. You can overcome this by exploring your investment options, like an external pension fund or discretionary investment portfolio.

Contributions to retirement products will reduce your taxable income and are one of the few areas where SARS gives South Africans some tax relief – use it!

MYTH 3: RETIREMENT MEANS THE END OF WORK

Retirement doesn't always mean the end of your professional life. Many people work part-time, engage in hobbies, or even start new careers after retirement.

Sometimes this decision is forced on them if they don't have enough saved. But in other instances retirees find the need to stay busy and pursue personal passions, which means their golden years are as busy as before retirement.

And, if you do start a business venture to boost your retirement savings, I'd strongly recommend that you not use your retirement savings to fund this. Way too many pensioners have lost their savings in failed business ventures.

MYTH 4: I'LL RETIRE AT AGE 65

For as long as we can remember, the retirement age has been pegged at 65. The truth is that many of us will probably only retire closer to age 70. For some, that decision will be driven by the need to save more towards retirement, while others are still enjoying a successful career that allows them to continue working for longer.

No hard and fast rules prevent you from working beyond 65. So, if you're still feeling fit, strong and motivated, you have no reason to stop working.

MYTH 5: MY EXPECTED LIFESPAN IS 75-85 YEARS

As I've mentioned, we're living longer than earlier generations due to medical advancements and healthier lifestyles. That means you need to cater for this in your retirement plan.

So, rather than planning for retirement of 15 or 20 years, you now need to save enough for 25 or 30 years of retirement. This depends on how old you are when you retire, with more savings needed if you call it quits at 65.

MYTH 6: I CAN COUNT ON HISTORICAL RETURNS

It's easy to believe that we can count on historical investment returns to understand future returns. Unfortunately, the future is unknown and unpredictable. This means you cannot take it for granted that you will get the 7% – 13% growth in the long-term average returns from equities.

Working with a financial advisor, you can investigate different scenarios to see what impact lower (or higher) returns will have on your retirement savings. By considering different options, you can plan accordingly to ensure you're not caught short.

PLANNING FOR YOUR RETIREMENT SHOULDN'T BE A GUESSING GAME. Hopefully, these tips on retirement myths will help you understand some of the pitfalls that await you if you're not properly prepared.

My advice would be to, firstly, have a financial plan. If you know where you are and where you're going, you can adapt to the path that you're on to make sure you reach your destination. Secondly, I would urge you to partner with a financial advisor able to guide you along this path.

Your retirement journey doesn't have to be shrouded in mystery. You have the power to take charge of your future, and I strongly encourage you to do just that.

ADVISOR PROFILE: SONIA DU PLESSIS | CERTIFIED FINANCIAL PLANNER®

Sonia heads up the Stellenbosch office and has been in the financial services industry since 2001. She won the inaugural title of Top Financial Advisor in SA at the 2019 Intellidex Top Private Banks and Wealth Manager Awards and placed second in the 2022 awards.

She previously worked for Magnus Heystek International, as well as ABSA Private Bank, where she gained valuable experience in investment and life insurance matters. Sonia obtained a BCom degree in 2001 from the University of the Free State and attained her CERTIFIED FINANCIAL PLANNER® designation in 2004.

Sonia is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

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