

# ALEXANDER FORBES PUBLIC RELATIONS

## ESSENTIAL PLANNING BEFORE RETIREMENT FOR A SMART WORKING LIFE EXIT

By Bianca Schmidt, head of financial planning consulting member education services at Alexander Forbes

Preparing for your best possible retirement does not start when you stop working – it starts by taking control 40 years before that date.

Statistics show that less than 10% of Namibians will retire with enough income of between 60 and 75% of their last salary. Only 2% will retire comfortably while the remainder will depend on the government or family members to provide for them, or they will have to continue working. If you want to retire comfortably, you should have a retirement objective of 75% of your pensionable salary.

It is essential, at all life stages, to understand your situation, what resources you have and what you are spending on. Take control by planning how much you will need in retirement and which expenses, such as medical costs, might increase.

Find out if you have a pension or a provident fund through your employer, and ask if the fund allows for additional voluntary contributions. It is an effortless way to save extra every month, and you will receive tax benefits on your contributions.

Draw up a preliminary retirement budget, check if your savings match your budget and identify if you have a shortfall.

### **The debt trap**

In Namibia, the household debt-to-disposable-income ratio as at April 2021 was N\$100 disposable income to N\$89 short-term or long-term debt. This means our debt ratio to disposable income is very high. For every 100 dollars earned, up to N\$89 goes towards servicing debt. That leaves N\$11 dollars remaining for day-to-day expenses and saving.

You cannot afford to retire if you have debt, so get rid of this as soon as possible. Focus on paying off expensive debts such as microloans or store cards. Use cash where you can.

Cultivate a savings culture by:

- sharing household tasks and expenses among those you live with or your friends
- looking for carpool opportunities for driving to work and school
- not buying branded items
- limiting take-outs and restaurant visits
- combatting impulsive buying behaviour

### **It all adds up**

Preserving your pension throughout your working life when changing jobs has a major impact on the monthly pension you will receive at retirement. In Namibia, the average fund member changes jobs around seven times within their working career, and will get N\$2 880 as a pension for every N\$10 000 they were earning before retirement – mainly because they withdraw their retirement funds when they changed jobs.

Retiring at 65 rather than 55 can almost double your replacement ratio and retirement income. Getting good financial advice can help you understand your unique financial needs and achieve your goals.

### **Planning is everything**

Confirm your retirement date – don't wait for HR to announce that next month you will have your last day. There is much red tape involved with various service providers and it takes eight to 10 weeks to process a retirement claim. Do not assume you will be able to work beyond the normal retirement age; however, if you have not yet saved enough you might be able to get contract work. Alternatively, you will have to accept a reduced income after retirement and adjust your lifestyle and lower your standard of living so that you can survive.

A good financial planner can help you get a grip on your personal finances. They will help you understand if you need to increase your retirement contributions to help close the gap during the next few years leading up to your retirement.

You will need to receive proper financial advice before choosing the post-retirement annuity type best suited to your needs, as each has different tax rates which impact your financial planning. Choices are between life or guaranteed annuities, or living annuities or flexible annuities.

Retirement can be a time of opportunity and enjoyment if you have prepared financially. Remember that today, people are living longer and should therefore save more, for longer.

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