

Don't bank on wishful thinking:

Practical solutions for a secure retirement

Retirement is a time that many people may look forward to, envisioning a golden phase of life filled with plenty of relaxation, pursuing interesting hobbies and spending quality time with friends and family. However, wishful thinking about affording retirement can create significant challenges down the line.

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Here we will explore four common ways that people deceive themselves about retirement and the importance of considering realistic options to secure a comfortable future.



“Something will happen to save me”

One of the most common self-deceptions about retirement is the belief that something miraculous will occur to rescue one's financial situation. It could be winning the lottery, receiving a surprise inheritance or a higher paying job materialising just in time. While it's natural to hope for unexpected windfalls, relying solely on these unlikely events is a risky strategy.

Rather than depending on external factors beyond our control, it is crucial to tackle challenges facing retirees' financial future. Help retirees assess their current savings and investment plans, encourage consultations with a financial adviser or a retirement fund's benefit consultant to understand the options

available so they can develop a comprehensive retirement strategy. By setting realistic goals and diligently contributing to long term investments, a solid foundation for a comfortable retirement can be established.

“I will pass away before finances become a problem in retirement”

Some individuals convince themselves that they won't live long enough to face financial challenges in retirement. While it's impossible to predict the future, advancements in healthcare and an overall increase in life expectancy suggest that living longer is becoming the norm. For people who assume they won't be around, it can be particularly dangerous if this stance leads to having inadequate savings or neglecting longer term retirement planning.

Instead of banking on an early demise, one should adopt a proactive approach by assuming retirement will be longer than anticipated. For example, a 65 year old male has a 10% chance of living to 95 years old and a 65 year old female has the same probability of living to 100 years old. By saving and investing with the mindset of a longer retirement horizon (we suggest planning for at least 30 years), there should be enough resources to sustain an income for the later years.



“I don't need to worry because my children will help me”

It is natural for parents to hope that their children will provide financial assistance during their retirement years, should they need it. However, it is essential to remember that children have their own financial responsibilities and goals to consider. Relying on children as a primary source of support may compromise financial wellbeing for all parties involved.

Instead of assuming children might shoulder the burden, retirees should focus on building a sufficient retirement nest egg. It's important to maximise savings and explore investment opportunities that align with risk tolerance and long term goals. This self-reliant approach allows for the best chance of financial independence and provides a sense of security for retirees and their loved ones.

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“I can only choose one annuity solution”

Many unadvised individuals are misinformed about their choices at retirement. There is a common belief that they must either put all savings into a living annuity or a life annuity. But recent market developments can allow for a combination of the two which helps sustain a retiree's income in retirement.

Blending a life annuity in a living annuity allows retirees to secure a guaranteed income for life to cover essential expenses, while also maximising the long term growth of the rest of their capital to meet less essential or luxury expenses or to be able to leave some money behind for beneficiaries.

These choices may be determined by the retirement fund's rules. However, it is important to make sure that the suite of products offered to retiring members adequately meets their needs in retirement and that all options have been considered.

Trustees have a key role to play

While wishful thinking can bring temporary comfort, it is crucial to face the reality of retirement planning head on. A comfortable retirement requires proper consideration and many years of saving – there is unfortunately no getting around that.

And it's not surprising that the earlier people start saving for retirement, the more time investments have to grow enabling them to purchase an adequate income generating product when they retire. The more saved, the better the income could be from a guaranteed life annuity or a living annuity or, as we have explored above, a combination of the two.

Without adequate retirement savings, affording a desired retirement could be problematic, considering that the alternative may mean relying on an old age grant from the government, which is not likely to equate to a comfortable retirement. Helping retirees save enough successfully themselves is rewarding and they will be grateful to have their own money and options, instead of relying on family or a lucky twist in circumstances to fund their golden years. Trustees should always act and serve in the best interest of the members in their fund.

It is therefore vital for trustees and advisers to provide adequate information to retirees upfront, which should include the benefits of a life annuity, a living annuity or a blended annuity solution.

Regulations limit what decisions can be made after retirement. Although these regulations have not had an immediate effect on member behaviour at retirement, ongoing efforts by trustees to ensure a useful level of guidance available to retirement fund members should help them make informed decisions and secure a sustainable income throughout retirement.

Trustees should review their annuity strategies regularly. Trustees should receive regular training to make sure they stay up to date with changes in the retirement fund industry. It is advisable for funds to insist that product and service providers report back to the fund to stay abreast of product development and innovation in order to ensure better outcomes in retirement for retirees.