Retirement reforms and making provision

By Laurence Hillman

8 May 2014

In South Africa, it would be normal if you had to work your entire life and still end up in debt - an uncertain future exacerbated by the average debt-to-income ratio of 80% and the fact that three out of four people will cash in their retirement fund when they change jobs, often to pay off previously incurred debt.

This is a cause for concern, especially since the average person changes jobs five to seven times in their lifetime*. To curb this, Minister Pravin Gordhan's latest budget speech mentioned the National Treasury's changes on retirement policies, specifically the preservation of withdrawal benefits. These changes will effect how much access to retirement savings consumers will be allowed to have, once it takes effect and becomes compulsory for people to preserve savings in coming years.

Limiting withdrawals

In essence, National Treasury wants to make it more difficult for a person to withdraw lump sums from retirement funds before retirement. Tighter controls on preserving savings are being proposed, by limiting withdrawals and ensuring that when people change jobs, they transfer the balance of the retirement into a preservation fund.

With the escalating cost of living in mind, and until these reforms are implemented, what can consumers do to ensure a comfortable retirement? The answer is simple: Save - start as soon as you begin your first job, whatever the job may be, so that a culture of saving is entrenched in your mind.

Saving for retirement isn't always easy, as the idea of delayed gratification is not one that has been instilled in our "I want it all and I want it now" culture. However if you avoid the potential pitfalls and make well thought out decisions along the way, you can greatly improve your chances of success.

Plan ahead

Make sure to have a plan in place that helps you set goals for retirement, which takes your current lifestyle into account as well the age at which you would like to ideally retire. It's important to note that the life expectancy of the average South African has increased due to advances in medical technology. This means that older generations are living well into their later years, which many of them haven't planned for. It is a myth to think that your expenses will decrease continuously until you die, in fact they may increase as your dependence on medical advances increases.

How much you need to save is based on variables such as your age and lifestyle. Of course, the earlier you start saving, the better - thanks to the power of compound interest. It's what many call the 'snowball' effect because interest is earned on the amount that has already earned interest.

Financial freedom

In addition to this, remember that your lifestyle will change and you must take into consideration which expenses will increase and which ones will decrease after you retire. With children out of the nest, education expenses will vanish, clothing expenses will reduce as will certain taxes. However, these will be replaced by other lifestyle, travel, recreational expenses - because you will hopefully have more time on your hands - as well as rising medical costs, which with age, tend to increase.

Money is earned through work; an action that requires both your time and your energy. As the years go by, decisions about how you spend money will affect all aspects of your life. If the basic principles of building wealth are followed, then the plans you put together will help you to obtain and maintain financial freedom and continue to build wealth for your retirement, and with a little help from the retirement reforms in future, you could even have more than you planned for!

*Reference

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