GIPF
Government Institutions Pension Fund

To guard, and to grow.

Retire Comfortably

When you reach 60 the last thing you want to worry about is your retirement. In order to have a restful, secure and carefree retirement, you must build a financial cushion that will fund your expenses and lifestyle. Benjamin Franklin once said: “By failing to prepare, you are preparing to fail”. This has proven true in many areas of life and one such area is retirement preparedness. Retirement planning is a multifaceted process which starts with setting your retirement goals. The plan helps you to achieve the objective and goals you have set for yourself. It will determine your quality of life after you venture into retirement.

Although, pensioners in defined benefit funds such as the Government Institutions Pension Fund (GIPF) enjoy the security of having guaranteed benefits, possible increases in medical and other living expenses due to the coronavirus (COVID-19) pandemic may reduce their purchasing power. Just as events like these can show the remarkable benefits of saving for your retirement, it can also highlight the exact opposite. As terrorising as this pandemic has been, retirees who made adequate retirement plans will enjoy a certain degree of comfort because, they are adequately cushioned by their retirement savings during hard times.

Below are some tips everyone should take regardless of their age to prepare for and build a solid retirement plan that will ensure you have a comfortable retirement.

1. Start Early: Time is your best friend

Your current age and expected retirement age gives you the initial groundwork for an effective retirement strategy. The earlier you start, the higher the level of risk your portfolio can withstand and the longer your savings period will be. The success of your retirement programme is directly determined by the goal of how you would like to maintain or improve your lifestyle during your retirement years. If you wish to travel and make more purchases in retirement, you must save more. How much you will need to save depends on how you want to spend your retirement.

Starting early is not necessarily just about retirement saving. It also includes paying off your debts. You ideally want to pay off of your mortgage, vehicle loans and any other significant debts before going into retirement. This will help you avoid using your hard-earned retirement income to pay off debt. A common misconception by people is to look at retirement as a far-off future event, thus thinking they still have plenty of time to save. However, this has proven to be the exact opposite. Consider the following, as a young professional, who has just entered the workforce you probably think you still have a long way to go and plenty of time to save. However, be mindful that a 58 year old who is two years to retirement once felt the same, however s/he may now find him/herself in a situation where they have not saved enough.

2. Avoid withdrawals before retirement

Many-a-times you may have to change jobs and one of the immediate temptations is that of withdrawing your retirement savings for cash. Avoid this temptation at all costs. Consider the following:

The cost of living increases every year especially health care expenses. You will want to live longer and thrive in retirement. Retirees need more income because, they are no longer at work for eight or more hours a day. As a result, we have more time for travelling, shopping, sightseeing, and engaging in other expensive activities. The longevity of your retirement portfolio is greatly affected by your withdrawal and saving rate because it will ultimately affect how much you are able to withdraw each year. As a member of the GIPF, you have guaranteed benefits for life after retirement. However, if you have invested in a retirement annuity plan that is directly dependent on how much you have saved, you may easily outlive your retirement savings. To put this in perspective, if you wish to withdraw N$10,000.00 each month from your retirement annuity, given you have not saved enough and interest rates are low, your retirement savings may not be able to sustain you for life. This means, if you live longer than anticipated, you may end up with little or no income at all, as you may have depleted your retirement savings.

To avoid outliving your savings, you need to be mindful that the average lifespan of individuals continues to increase due to advancements in health care. Having a future outlook about your possible future expenses is of paramount importance as it will give you an indication of how much more you ought to save. For example, if you anticipate that by the time you retire you will still be paying off your mortgage, or have children in school or university, this is a clear indication that you will need more money in retirement.

To recap, when you change jobs, transfer your benefit to your new employer's retirement/pension fund. Alternatively transfer to a preservation fund such as Kuleni Preservation Fund or take out a retirement annuity plan instead of spending it. It has been said that, all things being equal, in order to maintain a similar lifestyle during retirement as you had prior to retirement, you need an income replacement ration of at least 75% of what you were earning before retirement. For example, if you earned N$10,000.00 right before retirement, you at least need to earn about N$7,500.00 after retirement. Making withdrawals before retirement will greatly hamper your ability to reach that goal, consequently decreasing your earning during retirement.

3. Take out additional retirement savings

COVID-19 has shown us that the future is uncertain. Those who thought that they had sound retirement plans have since experienced a different reality, as they may have received little to no increases in their income or have had to take income cuts.

Should you be one of those who have made early withdrawals not all hope is lost. This simply means you will have to save more for retirement than you currently are. Therefore, in addition to what you are currently saving in your current retirement fund, it is advisable to take out a retirement annuity plan to supplement your income during retirement. This also goes for those who have not made any withdrawals but wish to meet their retirement goals and retire comfortably. For example, if you and your employer currently contribute 23% towards your retirement savings, you should also consider taking out a retirement annuity plan which will provide you with extra income at retirement. Your monthly premium will depend on your individual needs. Speak to a professional financial planner to assist you in this regard.

Retirement is your individually earned right to a period of leisure, and a moment of rest with the confidence that your retirement scheme will take good care of you. Make the right choices today.