INDUSTRY VIEWS

Adapting your plan to our changing world

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Clients who understand their role in the financial planning process are far more likely to achieve their goals. To change the destiny of the *94% of South Africans who cannot retire comfortably,* investors need to take ownership of their financial planning journeys and rely on guidance from their financial advisers. The good news is that we need not feel helpless – in spite of the challenging environment. There are always opportunities to maximise the factors under our control and use the dynamics of a changing environment to our benefit.

Much has changed in the 5 000 years since financial planning started (source: Investor Amnesia). One thing is clear, however: investors who understand their role in the financial planning process are far more likely to achieve positive outcomes. This has most recently been highlighted by the Financial Independence, Retire Early (FIRE) movement with its extreme focus on living frugally and curbing expenses with the ultimate aim of retiring early. At PSG Wealth, we firmly believe that individuals should plan for, and act on, the factors under their control. A FIRE approach certainly encourages this behaviour, but its extreme focus on frugal living may not be for everyone.

The right plan is tailored to your needs

Your own vision of financial freedom might be very different from someone else's: as with all financial plans, the right plan is one that is tailored to your needs. Your plan also needs to be revisited as your circumstances (and the circumstances of your dependants) change. The financial planning process can help you determine if changes are needed, or whether you should rather stick to the original plan – which is often the hardest thing to do.

There are more choices and options available to help investors reach their goals than ever before. Despite the challenges, there are also many opportunities to plan for sustainable incomes into retirement. The key to achieving sustainable outcomes, however, is to have a clear financial plan that can meet the challenges and opportunities of your environment head on.

As times change, be sure to shift your thinking

Our framework for being able to accumulate savings has changed. Most of us are no longer working for one employer, and 'taking some time off' (as a sabbatical, or when considering your next move) is becoming more common. This flexibility allows us to lead more rewarding lives – but we need to understand the potential impact this may have on our ability to accumulate savings. Preserving retirement savings when changing jobs is non-negotiable. If you take time off work, you will need to make it up elsewhere, either by saving more when you return to work, or by working for longer.

Improved health and longevity might mean you will be able to retire later. For every year you postpone retiring, you are not only not using your retirement savings to sustain you, but you also have a chance to continue accumulating more savings. Working for as long as possible therefore makes sense. Yet despite this, the age at which people are retiring hasn't changed much over the last 100 years (still ranging between 55 and 65 years).

Don't be fooled by averages…

According to a recent survey by Sanlam, if the average male reaches the age of 65, there is a 50% chance of them living to 85 and a 30% chance they will live to 91. Planning for the average outcome may leave you falling far short of your actual needs.

Many mid- to higher-net-worth South Africans prefer to self-insure their retirement income in the form of living annuities, but if you choose to do so, you need to ensure that your income withdrawal level is sustainable. This means that you need to understand the impact that your drawdown rate is likely to have on the longevity of your capital. A qualified financial adviser can help you what this means for you, based on considerations including your risk appetite balanced against your health, hereditary considerations and dependants.

… or fooled by recent experiences

Just because the markets in South Africa have been flat for the last five years, does not mean that you should give up on equities (and the potential they offer for long-term growth). Make sure your capital is invested to offer you an appropriate balance between growth assets and more conservative investments like cash that offer some security and are more predictable over the short term. These days there is more information available than ever before. If you are making your own investment decisions, invest time to ensure you are positioned to manage your own money effectively. However, understand that research has shown time and again that it is typically investor behaviour, and not the markets, that let investors down. Your financial adviser will be able to help you navigate your biases which, if left unchecked, can drive poor investment outcomes. Focusing on a robust and disciplined decision-making process is essential to ensuring you can achieve your goals.

INDUSTRY VIEWS

A trusted financial adviser can help you

To reach your goals, you need to plan. A good plan, however, is not one that is cast in stone, but rather one that caters to changing realities and can be adapted accordingly. It also needs to continuously evolve and develop as your life does, remaining relevant to your changing needs. The value of good financial advice lies far beyond selecting a product or fund. Rather, it lies in providing perspective on the challenges you face, and in helping to temper the emotional reactions that destroy value. There are many challenges in dealing with a world characterised by longevity, and a good financial plan can help you meet them and reach your goals.

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