TIPS FOR A SUCCESSFUL RETIREMENT

Here are some pointers to help you make smart financial decisions during retirement; these were gathered over the last 20 years from successfully retired individuals in South Africa and the USA.

1. Don't underestimate aging retiree's spending

It is a myth to think that your expenses will decrease continuously until you die. The mix of spending might change as you spend less money on leisure activities and more on health costs. Try to plan for your expenses to remain the same over your lifetime - adjusted for inflation.

2. Focus on an optimal portfolio

You cannot control the returns of your investments; your investments will always be affected by stock markets, interest rates and inflation. Your best chance of coping with these variables is to build the optimal retirement portfolio that is designed to minimise stock market volatility while ensuring that you will still outpace inflation over your lifetime. Controlling costs is a huge factor in this decision and indexation is one of the best ways to eliminate costs.

3. Plan for volatility

You have to be prepared for major stock market crashes over your lifetime. It is impossible to anticipate a stock market crash and any strategy that aims to predict these events will end up costing you a lot of money and stress over your lifetime. To cope with volatility, ensure that you are well diversified across cash, government bonds, listed property and shares. If you are invested in a living annuity, you can also manage your withdrawal rates from your annuity to draw a smaller percentage when markets are falling. An ideal withdrawal rate from a living annuity ranges from 4% to 8% depending on your wealth, age and health.

4. Learn the lessons of Behavioural Finance

Unfortunately people are not rational in their investment decisions, especially in pressurised situations. You need to be aware of your personal shortcomings that could impair your ability to make good decisions. Here are some of the decision-making errors that investors make on a regular basis.

Overconfidence: Men, in particular, tend to believe they are great investment selectors, despite research to the contrary.

Representativeness: We tend to jump to conclusions, assuming, for example, that an 80% gain followed by a 60% loss should leave a 20% gain. (In reality, it means a net 28% loss.) This also applies to unit trust rankings where we assume that a fund that has performed well in the past will continue to do so in future. Very often, investors would be well placed to select the funds that have performed worst over the last year.

Framing: We make decisions based on how information is framed, such as the recent returns of your investments. If you started investing in shares for the first time in 2008, you might think shares are terrible investments, which is simply not true. Your initial experience with an investment can often set your expectations for your lifetime which is dangerous.

5. Be sceptical of market timing

A retiree's first priority with investments is to guard against a permanent loss of capital through poor decisions. Secondly, they need to protect their capital against inflation, which means they cannot be too conservative with their investment decisions. You need to maintain a minimum exposure to shares of at least 35% of your portfolio to ensure that your capital keeps pace with inflation.

6. Keep your home as a last reserve

A paid off home can be your financial reserve if you are in financial difficulty at a late stage of retirement. A home is a great source of emotional security but it is a dead asset that costs you money. If you are in a difficult financial position, you can sell your home, rent an apartment and use the proceeds from the sale of your home to fund your living expenses for the rest of your life.