

Unexpected Expenses That Could RUIN Your Retirement PLANS

By Nicola Langridge, Wealth Manager Private Client Holdings

Disaster-proofing your finances to ensure that there are contingency plans in place is important at any age, but this is especially true for retirees, who are usually living on a fixed income. All it takes is one major unplanned for life-event to deplete your savings, derailing your retirement and possibly even leaving you in financial distress.

While we cannot stop some financial emergencies from happening, we can plan for their possibility and improve our ability to handle them should a worst-case scenario occur.

Here are some of the unexpected events, that you need to to be prepared for:

Unexpected healthcare costs

One of the biggest risks is unexpected and unplanned for medical expenses. A major medical expense, whether an illness or an injury, could easily cost you hundreds of thousands of Rands. This needs to be planned and budgeted for through a solid and reliable medical aid, as well as gap cover.

A large home repair

Any number of misfortunes can happen to your house leading to large repair costs. It is important that you make sure that you have adequate household insurance in place for both the structure and its contents.

Needs of other family members (or possibility of a divorce!)

Many retirees find themselves helping other family members, including children and grandchildren. Supporting grandchildren and adult children can have a real effect on your chances of retiring comfortably.

If divorce becomes a reality, it could compel you to completely rethink your retirement plans. Rather than planning for joint living expenses, you might have to divide your savings to pay for two separate retirements. Hopefully, both partners have a roughly equal portion of retirement savings in their names, but if one partner was mainly saving for both, it is important to have professional wealth management advice and an objective perspective to avoid being left with nothing.

Caregiving/Assisted Living

With people living longer, you must plan for the possibility that you may need assisted living somewhere along the line – which comes with a price tag.

Again, it is important to budget for this and have a plan in place.

A spouse's death

A spouse's death can lead to additional financial burdens in the form of remaining medical bills and debts. Also, the surviving spouse may not be able or willing to manage the family finances if they were usually handled by the deceased.

Estate and risk planning is an important aspect of providing for survivors to ensure they can cope after their partners' death. Ensuring that beneficiaries are correctly loaded to all policies is vital, as is

ensuring that there is sufficient life cover to provide for any debts or estate shortfalls.

Inflation and interest-rate risk

Inflation should be an ongoing consideration for anyone living on a fixed income. Even low rates of inflation can seriously erode the well-being of retirees who live for many years.

Many South Africans have celebrated the interest rate cuts and the fact that it is at record lows. However, that it is not good news for everyone. Lower interest rates reduce funds available for retirement income, by lowering growth rates for savings accounts and income funds. As a result, individuals may need to save more in order to accumulate adequate retirement funds. Similarly, an increase in interest rates can negatively impact the JSE and the housing market, thereby affecting a retiree's long term growth assets.

Investment losses

When the global markets take a turn for the worse, your investments might not grow as quickly as you had hoped, or you can stand a chance of losing capital. Working with an astute wealth manager can help mitigate your losses through a well-planned goals-based investment portfolio that sees your money invested wisely. Our message is – do not DIY when it comes to your nest-egg.

The Bottom Line

You cannot stop emergencies from happening, but you can plan for them so that they do not destroy your financial security and derail your comfortable retirement. Those who are managing their own retirement funds over a lifetime must perform a difficult balancing act.

For more information and advice on your retirement planning contact Nicola Langridge on (021) 671 1220.

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