M&G Investments
M&G Investments
November 2022

Critical financial mistakes to avoid in your 50s

By the time you reach your 50s, it's more important than ever before to keep on top of how your retirement savings are doing and how much income you're likely to need when you finally retire. Unfortunately, it's easy to underestimate, particularly if you've been dreaming of a rosy future where you can finally do the things you haven't had time to do while the kids were growing up.

You may want to travel more, take up an interesting activity or hobby, or remodel your home. But these things are often more expensive than you think they'll be. You're also likely to face higher costs on the basics such as food and transportation due to inflation, not to mention higher medical expenses as you age.

In your 50's you generally reach the top of your earnings cycle, which is also the time when it's easiest to save and when you should be contributing and accumulating the most. If you possibly can, save those salary increases rather than buying a new car or new house – pay down your existing home and car loans instead.

It's generally recommended that your income after retirement be between 60% - 80% of your gross income before retirement (this is also called your income replacement ratio). Hopefully your house and car are paid up by the time you retire so you won't have to spend any of your income on these costly items in retirement. To help you to reach this ratio, below are a few financial mistakes that are critical to avoid, so that your 60s and the retirement years beyond are as close to your dreams as they possibly can be.

Mistake #1: Dipping into your retirement funds
People in their 50s are sometimes referred to as the 'Sandwich Generation', caught between financially supporting their elderly parents while still helping their young adult children as well – and possibly providing a roof to all three generations. If you're caught in the middle like this, you may feel tempted to reduce – or access – your retirement savings. Doing so, however, has significant tax implications and could dramatically reduce the amount of money you have in retirement. Speak to your financial adviser about ways to avoid falling into this trap.

Mistake #2: Retiring too soon
In its most basic form, retirement planning is a race between you and your money – and you only "win" if your money lasts as long as you do. It's not inconceivable that you'll live until the age of 95; yet if you retire at 60 it's almost impossible to fund 35 years of retirement with just 40 years of savings (assuming you've been saving since the age of 20). If possible, avoid leaving the workforce too early. Consider staying another year or two with your employer (and, your employer's retirement fund. These few extra years can make a big difference, as you're contributing extra funds and delaying drawing them down at the same time. You're also likely getting a tax break.

Otherwise, you may want to think about starting a later-life second career. This could easily be contract work or a part-time job. Fortunately, today's employers are more flexible about such arrangements than they were in the past. Your longevity should be a positive factor for you, giving you opportunities your parents might not have had. However, living a longer, happy life means you may well need additional post-retirement income.

Mistake #3. Relying solely on your employer's pension fund
Most people rely on their employer's pension fund as their sole source of income after retirement. However, research suggests that less than 19% of retirement fund members will have enough saved to retain their current standard of living after retirement. This means that most of us have a lot of catching up to do! Fortunately, you may still be a decade (or more) away from retirement, which is still a reasonable investment time horizon. Remember, it's not too late to take control of your financial future by saving and investing more than you are right now. Apart from what your employer provides, you may want to start a retirement annuity (RA) for additional

retirement savings, with favourable tax treatment. And don't forget about putting funds in tax-free investment accounts!

Mistake #4: Doing nothing

Hopefully, you've been diligently saving and investing, and sticking to your retirement plan. But that plan may need to change as you get older and realise you could be facing a shortfall, or if your life changes. Check in on your investments regularly and meet with your financial adviser to determine if you are indeed still on track to achieve your goals, or if you're missing out on potential value. Patience and planning are good; simply sitting in 'autopilot' isn't. There's nothing worse than doing nothing when you realise there's a problem – there are always some options, even if you think it's become impossible to reach your goal.

You can also use our online retirement calculator to get an idea of whether or not you're on track with your retirement savings, and then sit down with your financial adviser and sketch out a budget to help ensure you don't outlive your money.

For more information or if you have any questions, please contact your financial adviser or feel free to get in touch with our Client Services Team on 0860 105 775 or info@mandg.co.za

https://www.mandg.co.za/insights/articlesreleases/critical-financial-mistakes-to-avoid-in-your-50s/