What to think about if you're offered early retirement

The negative economic impacts of COVID19 are being felt by many employers and reducing operational costs has become a critical priority – the primary of these being reducing their salary bill. Hence, a strategy is to offer employees who are a few years away from retirement, the opportunity to retire early, possibly without the usual penalties imposed for cashing in their retirement funds prematurely. If you are an employee in your mid-50s, this may be an attractive option. You've worked hard for many years and the thought of having more free time may be quite appealing. Be careful not to make an uninformed decision though, says **Dinash Pillay, National Business Development Manager at Glacier by Sanlam**, as there is much for you to consider before you hand in your early retirement notice.

Retirement needs a plan

Most people don't think about their retirement before they are already in it. Planning is of paramount importance and financial planning is central to the big decision that you're facing. Here are some questions to answer, long before you exit your workplace for good:

- Have I saved enough during my working years?
- Is my employee retirement fund the only retirement savings that I have accumulated?
- What monthly income will my retirement savings provide after I retire?
- Who depends on my income now?
- Who will depend on me financially into the future?
- Is the home I own fully paid for?
- Am I debt-free?
- I'm healthy now, but what if I get ill or develop a chronic illness or I'm disabled – what do I do then?
- At work, I have purpose, focus and tasks that fill my day. Will I have a new purpose as a retiree?

We know that people live longer now than in previous generations, so there is the likelihood that you will live beyond 80. Dinash says that the most important question for people facing retirement, arguably is: **will my retirement savings last as long as me?** Before you make any life- or finance-changing decisions, the answers to these questions will inform your decision-making.

Your to-do list before deciding to retire early

1. **Scrutinise your household budget.** This means evaluating every expense incurred in your home – the essential costs of living such as groceries as well as the luxury items such as entertainment. In every budget, there are fixed costs that are unlikely to change, whether you are working or not. An example of this is that you may be paying school or university fees for your children or you might still be servicing debt. Those costs may exist for many more years. So, regular review of your budget is essential. Consider that the monthly income from your retirement fund is likely to be less than your current monthly income. As a retiree, you might be able to save on costs like fuel, but also consider new costs that could be incurred e.g. your private medical aid that previously may have been included as an employee benefit at work.

2. **Think about who depends on you financially** and how long you will have to support them into the future. Your spouse may not be employed; you may still have children at school or university; you may have a disabled child; or you may have unemployed or retrenched adult children whom you support. These dependents have to be taken into account in your planning.

3. **Know how much retirement savings you're losing by retiring early**. You'd be surprised how much you could lose in savings, even by retiring just two or three years earlier than you originally planned to.

4. **Consult a financial adviser.** If you don't already have one, appoint a qualified, appropriately authorised financial adviser to help you make some of these decisions. If you do decide to opt for early retirement, there is little room for mistakes or bad decisions regarding investing your money. An adviser's expertise will go a long way in enabling you to invest and retire with confidence. Also, they are not emotionally attached to your money, so will help you make decisions based on the facts, objectively taking your unique needs, investment risk appetite and lifestyle into account.

5. **Decide on how you will spend your time.** Taking a dream holiday is one option, but it can only last so long. Many retirees complain about boredom within the first six months into their retirement. They have so much time with few activities to fill it. Perhaps consider creating a new source of income using your skills, or find a hobby, or think about the possibility of volunteering in your community. There are many organisations that serve the needy who could use your skills and expertise. The point is to find a new purpose and to live it with confidence.

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