5 Reasons Not to Save for Retirement

This entry was posted in Financial Health, Preservation and Retirement Issues by Amy Underwood from Alexander Forbes

We hear a lot about how South Africans need to save more, especially for retirement. In fact, in our case, we don't just hear it, we say it. But the question is: **are there good reasons not to save?**

Yes, indeed, there are.

In this post, we explore 5 reasons why people may sensibly choose to not save for retirement. These reasons may justify:

- Not saving at all (if you're self-employed or your employer doesn't provide a pension plan);
- Saving the minimum allowed by your employer;
- Or withdrawing your savings when you leave an employer.

But the important thing with all of these reasons is to make this an ACTIVE decision. When you choose to take your money and run, you need to know why you're doing it and what the implications are.

Reason 1: To pay for your children's education?

Our major finding – which we report on in Part 1: Chapter 2 of *Benefits Barometer 2014* – is that education is a partial substitute for retirement. What does this mean?

It means that if you can reasonably expect your children to support you in retirement, then cutting your savings to improve their education makes sense. But this relies on a certain kind of social background. If this is NOT a norm in your culture, community or family, then it isn't a reasonable expectation.

Because your kids may let you down, you probably don't want to re-direct all your savings into your children's education. So, cut back by all means if it makes sense in your family, but save enough that you don't end up with nothing.

Key takeaway:

Redirecting savings to your child's education can make sense. But have a contingency plan in case the things don't work out as planned – for you or your kids.

Reason 2: To pay for your home?

In Part 1: Chapter 2 of *Benefits Barometer 2014*, we also identified housing as a partial substitute for retirement savings. If your family home is paid off when you retire, then:

1. Your family home could be sold and the proceeds used to buy a smaller home and the rest invested to provide an income;
2. Your family home could be rented out to provide an income for you;
3. You could live in your family home and save yourself what you would otherwise pay in rent.

The key thing is that you can't rely on your house for everything. Even if you're planning on using strategy 1 or 2 explained above, housing markets are volatile, both for sale and rental, and you might retire at exactly the wrong time. And if you intend to continue living in your house, you'll still need an income to pay for the house's upkeep in addition to all the other things you need, like food.

So, your house alone won't be enough. You will need some retirement savings.

To pay for your house, you may also choose to delay some of your savings. So, perhaps you decide to save less in your 30s to pay off your house faster and reduce the interest payable. You could choose to catch up on your savings in your 40s and 50s. If you decide to make this trade-off, then it's important not to "forget" about it later on and allow yourself to get too far behind.

Key takeaway:

Redirecting savings into a house can be sensible. But you will need some regular retirement savings. Housing is only a PARTIAL substitute for financial savings.

Reason 3: To pay off your debt?

So, housing debt is generally considered the most sensible kind of debt. Why? Because at the end, you have an actual asset.

But what if you're up to your eyeballs, like so many other South Africans, in debt, with no assets to show for it? What's if it's unsecured debt? Or credit card debt? You're not coping and the only way out seems to be to cut back on your savings, or cash out your pension plan. What then?

Well, cutting back on your savings to repay your debt may be the right idea. Even with the tax incentives, it's unlikely your savings are earning you as much as your debt is costing you.

But this needs to be a TEMPORARY strategy. This is especially true if you plan to cash out your pension plan to clear your debt. If you do this more than once, this may a BIG problem. And if you do it close to retirement, it's an even BIGGER problem.

The problem with debt is falling into it tends to be a recurrent problem. In the book *Scarcity*, the authors report on a study where households' debts were paid off completely by a third-party. In no time at all, the households were back up to their eyeballs in debt.

In Part 2: Chapter 8 on Financial Education in *Benefits Barometer 2014*, we talk about the psychological aspects of money management. When it comes to debt, this is the hard stuff. Calculating compound interest is easy compared to getting your head right after falling deeply into debt.

So, if you're going to put your retirement at risk, you need to have a strategy to stay out of debt. A clean slate won't be enough. A pretty spreadsheet won't be enough. It's in your heart, not your head, and you need to ensure you have the support you need.

Key takeaway:

This is very dangerous. You need to deal with the reasons why you're falling into debt.

Reason 4: To put food on the table?

We've highlighted before that some South Africans don't earn enough to make it worth saving. The challenge is that many South Africans who can theoretically afford to save struggle to save practically.

This links to the previous point about challenges with money management. It is also a very real and tricky issue to manage.

But the reality is that you need a plan to put food on the table and a roof over your head in retirement. If you're not able to survive on what the government provides, and what your family may be able to do for you, then you need to have a plan in place. Which means tackling the hard questions about money sooner rather than later.

Key takeaway:

Some South Africans don't earn enough to save. But are you sure you're one of them?

Reason 5: To start a business?

Entrepreneurs sometimes see their businesses as their primary investment and don't save much beside this. Other individuals do save in a retirement vehicle to some point, but then choose to withdraw all their accrued savings to try and start a business.

The reality is that this can be a very risky strategy. A new business may fail – most do. An established business may flourish for a time and then fail at the worst moment.

What this means is that while having a successful business may reduce your need for other forms of savings, it doesn't eliminate it. Like with any investment strategy, you need to be careful not to put all your eggs in one basket.

Key takeaway:

Running a successful business may be a reason to reduce your savings or partially withdraw your accumulated savings, but it's a very risky strategy to rely on!

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In Conclusion:

Sometimes there are good reasons to cut our savings, even for retirement. Sometimes, this means we will need to save more in the future to make up the shortfall. Other times, it may mean that we are relying on other sources to fund our retirement.

The problem is that so many people don't save and don't interrogate why. These need to be ACTIVE decisions which consider all the potential consequences. Regardless, you need A PLAN for retirement and that plan needs to be properly thought through.

Are you saving enough for retirement? If not, do you have a plan in place to fix this?

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