

Secure yourself,
Secure your future



Retirement Planning Basics: A Journey Worth Starting Early

When Martha Tigo watched her father's health deteriorate, she faced more than just emotional pain, she faced financial ruin since her father had no pension, no savings, and no insurance. After selling the family's last two cattle to cover medical costs, Martha realised a hard truth: she was not prepared for the future, and neither had her father been.

That wake-up call led Martha, a 28-year-old nurse and single mother, to sign up for a personal pension plan, to complement the compulsory national social security scheme that she is also contributing to. Today, she is steadily building a nest egg to support her and her children in retirement. Her journey is a vital reminder that planning for retirement is not a privilege for the wealthy or elderly. It is a necessity for everyone.

Why Start Early?

Starting retirement planning early allows you to benefit from compound investment returns. Compound investment includes interest, which will also be earning interest, and it works best over long periods. The earlier you begin, the more your money can grow. For instance, if Martha saves US\$20 a month starting at age 25, she will likely have more in retirement than Edith, who starts saving US\$50 a month at age 40.

Retirement planning is not just about setting money aside, it is about ensuring dignity in old age. Without a pension scheme, retirees often depend on family or social welfare, which is not reliable. In a country like Zimbabwe, where extended family support systems are becoming strained due to economic pressures, personal retirement planning has never been more crucial.

More importantly, retirement planning is not just about saving some money for life after employment. It is about building a financial pot that will help you to meet financial obligations, such as housing, medical care, food, and support for dependents, when you are no longer earning a salary. A well-planned pension provides the financial continuity needed to sustain your lifestyle, meet unexpected expenses, and maintain financial independence in old age.

This is why it is essential to begin thinking now, about the kind of retirement lifestyle you desire and the level of pension benefits you will need to make that lifestyle a reality.

Why a Replacement Ratio Matters

One critical aspect of retirement planning that is often overlooked is the concept of the "replacement ratio." This refers to the percentage of your preretirement income that you will need to maintain a comfortable standard of living in retirement. Financial experts recommend targeting a replacement ratio of at least 60% to 75% of your final salary, although the ideal target can vary depending on lifestyle, health, dependents, and other personal circumstances.

Without a realistic replacement ratio target, many people end up undersaving, resulting in disappointing pension benefits. This gap between expectation and reality is a leading cause of financial distress in retirement.

Holding Fund Trustees to Account

Pension scheme members have a right to hold their pension board of fund (trustees) accountable. The board of fund is responsible for managing the fund in the best interests of members, and this includes:

- Timely remittance of contributions,
- Ensuring sound investment strategies,
- Transparent reporting on fund performance, and
- Responding to member queries and complaints.

Your Pension, Your Responsibility

As a member, attend your fund's Annual General Meetings (AGMs), which all pension funds are mandated to conduct with their members. Attendance gives members an opportunity to get updates on fund performance, which includes checking if your employer is remitting pension contributions to the fund. Members also have the right to receive benefit statements every year.

The statement indicates contributions and investment returns earned by the fund. The board of fund works for its members. Planning for retirement is not a one-time task. It's a journey. Life circumstances change, marriage, children, career shifts. Reassess your plan regularly to ensure it still meets your future needs.

The Insurance and Pensions Commission (IPEC) regulates and supervises pension funds in Zimbabwe to protect members like Martha. IPEC ensures transparency, fairness, and financial soundness within the sector.

If you are unsure where to start, IPEC offers guidance through educational materials and online tools available at www.ipec.co.zw.

Martha's story illustrates that it is never too early to plan for retirement, but it can be too late. Whether you are in formal employment, self-employed, or part of the informal sector, a comfortable retirement starts with the decisions you make today.

Do not wait for a crisis to remind you of the importance of preparation. The future may be uncertain, but your plan does not have to be.

About IPEC

The Insurance and Pensions Commission (IPEC) is a statutory body established in terms of the Insurance and Pensions Commission Act [Chapter 24:21] to regulate the insurance and pensions industry for the protection of policyholders and pension scheme members. For feedback or enquiries, please contact us at: pr@ipec.co.zw