M&G Investments
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Face up to financial reality in your 40s

Life, they used to say, begins at 40. This was based on the idea that having married and started a family in your 20s, your kids would be grown and out of the house, your bond would be paid off and your parents were happily retired. So, you could start spending on yourself and enjoying the fact that you had more free time. But today this traditional life patten is seldom seen -- there are many (more complicated) alternatives.

People leave the home and marry later, don't have kids at all, have to support their parents… and the list goes on. Given the profusion of potential situations, where should your finances be in your 40s?

While it's true that many aspects of life have changed since the white picket-fence days of the 1950s and 1960s, one thing that hasn't changed dramatically is the age at which you're expected (or compelled) to formally retire. Though there has been talk in some parts of the world about extending people's work lives until the age of 70, by and large this hasn't yet materialised into a dominant trend, and retirement between 60 and 65 remains the norm.

That being the case, where should you be financially in your 40s? One rule of thumb is to have three times your annual salary saved for your retirement by the fourth decade of your life. While some investors might not have achieved this, there is still time to focus on catching up before retirement. So, what can you do to accomplish this?

Avoid overspending
As your career advances, you're likely enjoying a bigger paycheque. Unfortunately, this can also mean bigger-ticket temptations. Enjoy life; but overspending for the sake of short-term gratification can severely impact your financial future. It's not just about the immediate hit to your savings; it's also the missed opportunity to continue to benefit from the power of compounding your investments on the capital you've spent. Instead, when you do spend, focus on buying appreciating assets (like an extension to your home to increase its value) and actively adding to your investments.

Don't buy short-term assets with long-term debt
In a similar vein, don't use long-term debt, such as a bond facility, to buy short-term, depreciating assets. By this point in your life, you may have made good progress in paying back your home loan and have built up equity that you can access. As interest rates on bonds are typically lower than rates on other forms of credit, it's tempting think about using your home loan facility -- but this is short-term thinking.

Say you want to buy an expensive SUV. You feel you've earned it. But the monthly payments over five years are a little beyond your means. So, you decide to take money out of your home loan facility instead, to make your monthly payments more affordable. The problem is that these are typically structured as 20-year loans. When you add up the interest you'll be paying over that term, as well as any less obvious costs, you'll see how unwise it is to spend the equity in your home on a short-term boost to your lifestyle.

Don't be too conservative in your asset allocation
As we get older, we naturally tend to take fewer risks in life in general. This applies to our investments as well. But this can be a big mistake. If you're 45, you'll likely have another 40 (or even 50) years of life ahead of you, including 20 before you retire, so your investment horizon is still quite a long one. This means you should be able to handle as much investment risk now as in your 30s and 20s without derailing your financial plan. In your 40s it's important to maintain a relatively high exposure to "riskier" assets like equities and listed property that offer higher returns over time, so that you can continue to build up your savings and meet your long-term investment goals. And make sure you're invested in global assets as well. Our M&G

Global Balanced Fund, with its diversified portfolio of global assets, could be a good option.

Maximise any tax benefits

Make sure you're taking advantage of any tax benefits and exemptions that apply to your situation. For example, are you invested in a tax-free unit trust? Unlike normal unit trusts, your investment returns are exempt from local dividends tax, income tax and capital gains tax. You can invest up to R36,000 a year into a tax-free investment, with a lifetime limit of R500,000. M&G Investments offers a wide range of tax-free investmentsacross various asset classes.

Don't panic and invest unwisely

It's natural to panic if you start to realise you're behind on your savings goals, particularly for something as important as a financially secure retirement. This can lead to you make unwise investments in the search for higher returns to boost your nest egg. The latest "hot" investment ideas are likely to be very risky ones – like crypto currencies. There have also been several financial scams over the years that preyed on the fears of people in their 40s and above wanting in on "structured" investments that proved to be pyramid schemes that came toppling down. The best course of action is, with the help of your financial adviser, to look at your asset allocation, as discussed above, and continue to plough every available rand into your savings.

Finally, as always, if you need more information, please feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za

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