



actserv

---

# ARE YOU READY FOR RETIREMENT?

INSIGHTS ON  
RETIREMENT  
PLANNING

---



20  
24

# INTRODUCTION

Retirement is defined as the period when an individual withdraws from their income-generating activities, applicable to both formal and informal jobs. While many workers in Kenya report that they have started saving for retirement, fewer have actually taken the step to determine how much money they will need for their retirement. This indicates a gap in retirement planning, where individuals may be saving without a clear understanding of their future financial needs. This has been the key cause of increase in dependency ratio in Kenya.

This article will therefore provide a comprehensive guide on how to be adequately prepared for retirement. Not only financial preparation, but also personal preparation towards retirement. This article will also serve as a guide for the informal workers to know when they are ready to retire since the dynamics of retirement are different for the formal and the informal sector.

## RETIRING FROM FORMAL VS INFORMAL SECTOR

Formal Sector	Informal Sector
There is a set retirement age. The normal retirement age in the formal sector is 60 years with the option to retire early as from age 50 years. However there are special groups whose retirement age might vary more so athletes, members of parliament, lecturers, scientists etc.	There is no predetermined age to retirement
Mandatory contribution towards retirement and social security	Voluntary contribution to social security and retirement plans
Entitled to a retirement income	Depend on individual savings
Saving is structured	Savings are not structured. It takes initiative.
Retirement is mandatory	Retirement is entirely your decision
Availability of free financial advice	Financial advice can only be sought for.
Contribution rate is well defined and is easy to set.	Contributions are dependent on the individual

# GETTING READY FOR RETIREMENT

The steps to getting ready will be grouped into two; Financial Readiness & Personal Readiness.



## 1. FINANCIAL READINESS

This is the first step in ensuring that you are ready for retirement financially. Establish this goal as early as possible. Don't save just because it's mandatory or out of habit, save with a purpose. The steps of setting a goal are as outlined below;

### A. Set a retirement saving Goal

This is the first step in ensuring that you are ready for retirement financially. Establish this goal as early as possible. Don't save just because it's mandatory or out of habit, save with a purpose. The steps of setting a goal are as outlined below;

- **Identify your desired retirement lifestyle**

Most people are not so keen on changing the lifestyle they are used to before retirement. They just add a few hobbies. Therefore, this stage is about identifying the hobbies you would like to venture in and estimating their associated cost.

- **Make a rough estimation of the annual income you will need to maintain the desired lifestyle**

When making this estimation make an allowance for inflation and unexpected expenses such as medical expenses.

- **Decide your contribution target**

When deciding this make an allowance for longevity.

- **Choose your desired retirement age**

Determine a realistic period you will need to accomplish the set goal hence choose your preferred retirement age. For the formal workers, retirement age is capped therefore, plan around that.

- **Come up with a contribution Rate**

The target contribution and the expected contribution period will aid in determining this contribution rate.

- **Track your progress**

- **Build your investment portfolio**

Invest in different portfolios not only to retirement plans. This will ensure that you are financially stable during the retirement period.

## **B. Pre-Retirement Financial Rehearsal**

This involves temporarily living on your anticipated retirement income to evaluate its sufficiency. This test period should be reasonable; for instance between 5-10 years. This will give an individual time to see the challenges that may occur during the retirement period, identify gaps in their retirement plan and give them peace of mind that their retirement savings are sufficient. This is a true measure of your readiness for retirement.

After the test, if you find out that the expected income may not be sufficient to take care of you during retirement, there are several steps you can take; Consider making additional voluntary contributions to grow your pension pot, seek alternative sources of income to boost your savings, and consider partial retirement, adjust your lifestyle to better fit your budget and diversify your savings among others.

## **C. Seeking Professional Advice**

A financial advisor will give you a clear picture of your savings and provide valuable guidance on your next steps. They will help you determine your net worth by evaluating the value of your assets, savings, investments, and other valuable items and compare them with your expected liabilities during retirement to gauge your readiness. Additionally, they can estimate your anticipated retirement income, helping you make informed decisions and adjustments as needed.

your current salary if the returns out-way the salary this point is known as the crossing point and is a good indicator of financial readiness for retirement.



## **D. Debt Management**

It's important to manage your debt carefully, particularly as you approach retirement. This can be done by ensuring that any existing debt is manageable before proceeding to retirement. This will help prevent scenarios where debt repayment depletes your retirement savings.

## **E. Access your income sources**

You need to be aware of all your income sources during retirement. They may include; Rental income, Farming Income and Pension among others. Make sure that you are aware of the income to expect from the social security fund and your pension plans. Compare the returns that you can obtain from the investment made for retirement and your current salary if the returns out-way the salary this point is known as the crossing point and is a good indicator of financial readiness for retirement.

## 2. PERSONAL READINESS

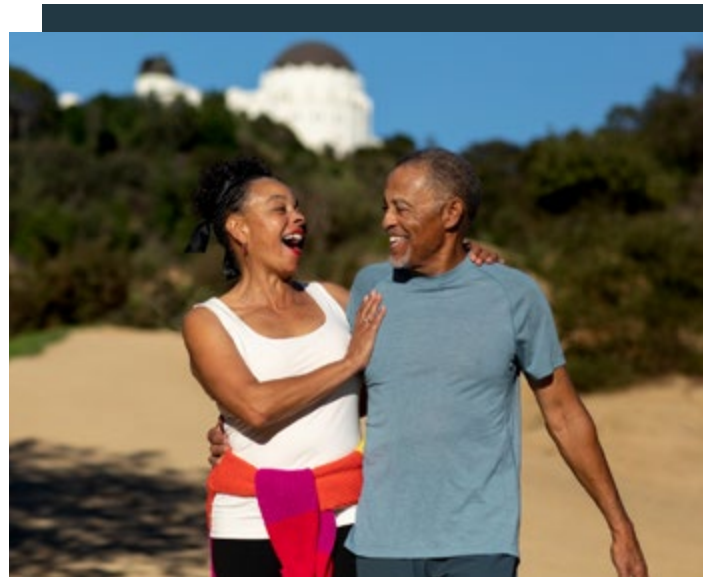
### A. Social and Cultural interaction

Transitioning from a routine of regular interactions with colleagues to a quieter life can be challenging. Building strong friendships acts as a safety net for your emotional well-being because friends provide support and celebrate your milestones at any age. Social engagement is important. Involving yourself in activities like; volunteering, participating in community growth initiatives, or taking on leadership roles can be some of the ways that you can avoid loneliness during retirement.

During your working years, time constraints often limit social interactions. However, post-retirement, you'll have more free time, which can be filled with meaningful activities and relationships. Friendships and connections don't just materialize overnight; your early career years are ideal for cultivating lasting bonds. This is also as a reminder to young generation who disregard the importance of marriage and parenthood to rethink, facing retirement is already challenging, I imagine that facing it alone can be more harder. Family also provides a sense of fulfillment and achievement. Building a strong social network now can significantly ease the transition into retirement.

### B. Health status

Being aware of your health status is essential for retirement preparation. This includes having regular check-ups, participating in health awareness events, and understanding any hereditary conditions you may be prone to. Maintaining good health and engaging in activities that promote well-being can be an effective way to prepare for retirement. Focusing on your health now suggests that you will face fewer health issues during retirement, thereby reducing medical spending during retirement.





# CONCLUSION



As discussed, retirement preparation extends beyond financial security. It involves shaping a fulfilling and purposeful next phase of life. Cultivating strong relationships with friends and family is essential for day-to-day happiness. Engage in activities that bring joy and keep you connected, such as traveling, volunteering, or pursuing hobbies.

Finding a new sense of purpose is equally important. Reflect on what gives your life meaning and explore ways to contribute to your community or causes that matter to you as a person. This can be through mentoring, part-time work, or community engagement. Having a sense of purpose makes the retirement experience better.

By focusing on these aspects, you can ensure a retirement that is not only financially secure but also rich in fulfillment and happiness. Start making plans now to ensure a retirement that reflects your beliefs, interests, and dreams.



## DISCLAIMER

*This educational material is strictly confidential to and solely for the use of the recipient and may not be reproduced or circulated without Actuarial Services (E.A) Limited prior consent.*

For enquiries about the information contained in this research report, please contact us on the address below:

### CONTACT US

Pensions Research Team,  
Actuarial Services (EA) Ltd,  
1113 Kayahwe Rd, Off Galana Rd, Kilimani,  
P. O. Box 10472 - 00100 Nairobi, Kenya.

Tel: +254 202710028 || Fax: +254 202726844

Mobile (Office): +254 708710028 || +254 786710028

Email: [pensions\\_team@actserv-africa.com](mailto:pensions_team@actserv-africa.com) || Website: [www.actserv.co.ke](http://www.actserv.co.ke)

