

HOW MUCH IS JUST ENOUGH FOR RETIREMENT?

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A great deal of attention is focused on appropriate investment strategies in retirement. Until recently, advisers had to choose between a living annuity with a flexible investment strategy and an inflexible life annuity providing guarantees. Now it is possible to access the best of both in a single structure.

This creates powerful financial planning opportunities, provided clients understand how much they need at retirement to fund their basic living costs, and how much is available as discretionary assets once these needs have been met.

To address this issue, Just has launched a “JustEnough” campaign amongst financial advisers to help their clients consider retirement

options that provide a guaranteed income for life that at least covers their basic living costs.

How much is JustEnough to meet essential expenses?

It is important to ensure that one can meet essential life sustaining expenditure in retirement. This includes food, accommodation, utilities, medical costs, transport and insurance.

For most households, this essential expenditure makes up between 65% and 75% of their monthly budget. This is surprisingly stable across different income categories: the difference being that those with higher incomes spend relatively more on housing and less on food than those in lower income categories, as shown in this table.

Monthly household budget	R5 000	R10 000	R20 000	R40 000
Food, non-alcoholic beverages and health	26%	18%	12%	7%
Housing, water, electricity, gas and other fuels	27%	30%	34%	37%
Transport, communication, clothing and footwear	22%	24%	22%	23%
Monthly household essential expenditure as a % of budget	75%	72%	68%	67%
Monthly household essential expenditure in Rands	R3 750	R7 250	R13 600	R26 900

Source: Statistics SA: General Household Survey (2014), adjusted for inflation per expenditure category

How much capital does a married couple require to fund their essential expenses over their life expectancy?

If we can identify how much households in different income brackets spend on essentials, then we can also calculate how much capital is required at retirement to secure this level of income for life, allowing for current tax rates.

We have used competitive with-profit annuity rates which target increases in line with inflation over a wide range of investment and inflation scenarios, to determine the required capital. Spouses' income has been set at 75% of the joint household income, which is broadly appropriate given the analysis of individual expenditure shown below.

This brings home two important points:

- Financial advisers are a person's best hope for realising early in retirement that they need to set an appropriate lifestyle that matches their means.
- And for those who have more than enough assets to meet their essential needs, it is worth considering opportunities to lock into a guaranteed lifetime income that is JustEnough to cover these essential expenses, regardless of how long they live or what happens to investment markets. Any additional assets are discretionary.

JustEnough for households				
Monthly household essential expenditure	R3 750	R7 250	R13 600	R26 900
Pre-tax income required to fund this essential expenditure	R3 750	R7 250	R14 450	R32 900
Capital required for male age 65 and spouse 61	R800 000	R1 550 000	R3 100 000	R7 050 000
Capital required for male age 75 and spouse 71	R550 000	R1 050 000	R2 100 000	R4 800 000

Source: Just

How much is JustEnough for individuals?

When one spouse dies, the remaining person will probably incur similar costs for housing and utilities, but half the spend on the other

categories. This makes the essential expenditure for a single person approximately 50% of the total monthly budget across all income categories.

Monthly household budget	R5 000	R10 000	R20 000	R40 000
Monthly individual essential expenditure as a % of household budget	51%	51%	51%	52%
Monthly individual essential expenditure in Rands	R2 550	R5 150	R10 150	R20 850

Source: Statistics SA: General Household Survey (2014), adjusted for inflation per expenditure category

As before, we can calculate the capital required by the individual to fund this essential expenditure over their life expectancy.

JustEnough for individuals				
Essential expenditure	R2 550	R5 150	R10 150	R20 850
Pre-tax income required to cover this essential expenditure	R2 550	R5 150	R10 150	R24 100
Capital required for male age 65	R380 000	R770 000	R1 520 000	R3 620 000
Capital required for female age 65	R470 000	R950 000	R1 870 000	R4 450 000
Capital required for male age 75	R250 000	R490 000	R970 000	R2 320 000
Capital required for female age 75	R300 000	R620 000	R1 220 000	R2 900 000

Source: Just

After a year of lower investment returns in 2016, we have seen a rekindling of the debate between living and life annuities. However, we believe that debate should now be consigned to

history. There is a new generation of product that allows clients to have the best of both worlds in a single structure.

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