

## IS YOUR NEST EGG JUST ENOUGH TO AFFORD A NEST IN A RETIREMENT?

Many retirees may be surprised to discover that the cost of a home in a retirement village is out of their reach and the sale of their existing home might not be enough to afford retirement accommodation. So how much *will* be enough?

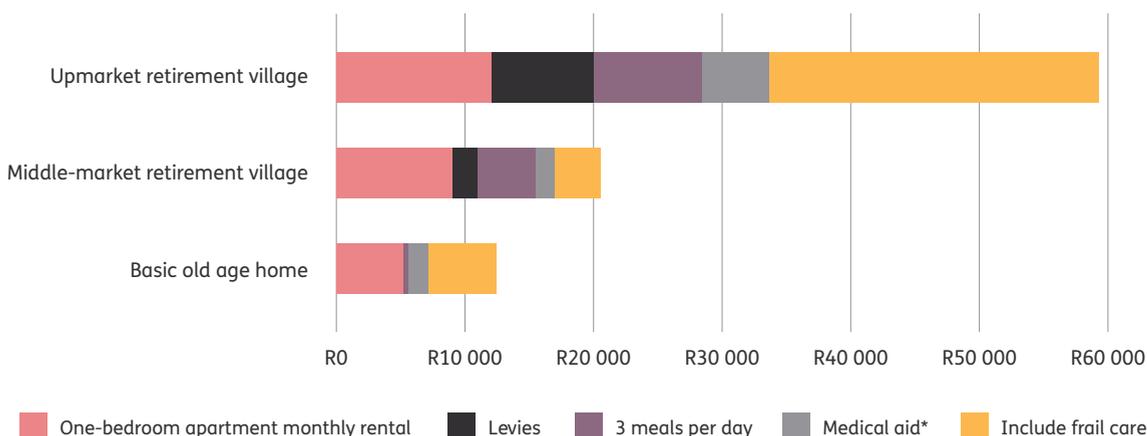
Options include basic old age or nursing homes, home-based care and retirement villages. Retirement villages, if one can afford it, are a popular choice among retirees and provide facilities, essential services, amenities and maintenance that allow residents to enjoy security and a sustained quality of life in a friendly community. Home-based care in a retirement village is supplemented by primary health care and frail care.

“With a large lump sum in retirement you can obtain life rights (from R1.3 million), a 99-year lease (from R2.8 million), or sectional or full titles from R2.3 to R3.2 million in a retirement

village, according to the 2017 Alexander Forbes Benefits Barometer. Life rights terminate on the death of the holder. Some retirement villages also offer rental schemes and according to Just research it may then require more than R8 million to cover essential expenses for life in an upmarket retirement village, depending on your gender and age,” says Twané Wessels, product actuary at Just.

### Essential expenditure per person per month

Just has researched what monthly essential expenditure for various accommodation options in retirement will amount to based on monthly rent, and how these expenses will increase from year to year. Monthly expenses are shown below for a basic old age home, a middle-market and an upmarket retirement village. These expenses typically increase annually by approximately 3% more than inflation.



\*Medical aid included in the upmarket retirement village analysis is assumed to be a comprehensive plan. For the others a hospital plan instead of a comprehensive plan has been assumed.

	Essential monthly expenditure after tax		
	Basic old age home	Middle-market retirement village	Upmarket retirement village
Excluding frail care	R7 107	R16 980	R33 650
Including frail care	R12 447	R20 500	R59 250

Source: Just

Frail care includes 24-hour nursing and may be needed for dementia sufferers, for example. Dementia results in memory loss, impaired communication skills and an inability to make simple decisions. The increase in dementia highlights the need to make the right provisions in retirement.

For one retiree, monthly expenditure in an upmarket retirement village with frail care can be approximately R59 250 per month.

### How much capital does a person require to fund these essential expenses for life?

The essential monthly amounts in the table above are what is needed after tax has been deducted from income. Tax needs to be added before we can calculate how much capital is required at age 75 to secure this level of essential income for life.

	Essential monthly expenditure before tax		
	Basic old age home	Middle-market retirement village	Upmarket retirement village
Excluding frail care	R7 107	R18 162	R39 613
Including frail care	R12 720	R22 597	R74 794

Source: Just

We have used competitive with-profit annuity rates, which target increases above inflation to determine the required capital.

JustEnough capital to fund monthly essential expenses, before tax, for a male and female aged 75				
	For a male, without frail care	For a male, with frail care	For a female, without frail care	For a female, with frail care
Basic old age home	R714 176	R1 275 198	R885 454	R1 581 008
Middle-market retirement village	R1 819 129	R2 262 410	R2 255 372	R 2 804 951
Upmarket retirement village	R4 298 932	R8 113 198	R5 213 824	R9 839 815

Source: Just

**How to sustain your income to cover essential expenditure for life**

To cover essential expenses before tax in an upmarket retirement village, including frail care, a male aged 75 would need approximately R8.1 million and a female aged 75 would require approximately R9.8 million.

People can benefit from thinking about their retirement assets in two portions:

- One that secures a level of lifetime income that will meet their essential expenditure needs for life (such as affording a nest in retirement) and is targeted to grow with inflation;
- The remainder to meet their needs for a rainy day, and for long-term growth for themselves and their beneficiaries, knowing that their essential expenses are covered. Given that their essential expenditure is already covered for life, this allows investors to be more adventurous in pursuing long-term investment returns without changing their overall risk appetite.

Until recently, advisers could only offer their clients a choice between a living annuity with

a flexible investment strategy and an inflexible life annuity providing guarantees, upfront at retirement.

Just has created a new asset class, called Just Lifetime Income, designed to provide sustainable income for life that meets essential expenditure. It is now available within selected living annuities, and assets can also be switched into it later in retirement to cover essential expenditure.

**Who would benefit most from Just Lifetime Income?**

The following people would benefit from investing in Just Lifetime Income at retirement:

- The typical person or couple at retirement wanting to cover essential expenses for life when they move into an old age home or retirement village.
- The widow who is seeking to sustain income.
- The person who wants to ensure that essential expenses and frail care costs are covered in case dementia strikes.



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