Q&A – Retirement lifestyle costs

Glacier Business Development Manager, Waldette Stoffberg answers some questions on funding your retirement lifestyle.

Q - What does the average retirement lifestyle cost in South Africa?

When looking at the average retirement lifestyle cost at the moment in South Africa, we need to consider that many South African retirees have no retirement savings at all, and rely on family, friends and a government pension. When retiring, there are certain basic expenses that you need to cover such as food, travel, insurance, medical expenses, rates, water and electricity. Depending on what your needs are in retirement, the cost of these expenses can average between R10 000 and R15 000 per month. The important thing to remember about your expenses is that things do become more expensive over time, and you need to select a retirement income that will also grow over time to combat the effects of inflation.

How important is it for people to consider funding their lifestyle in retirement?

It is critically important to start thinking about retirement as early as possible. The earlier you start to save, the stronger the effect of compound growth on your retirement savings. Even if you start with a small amount, it has a big impact over time. For example, saving R200 per month over a 40-year term in a growth portfolio could deliver a retirement sum of R1 711 541. If you increase the R200 per month by 10% per annum, you could have a retirement lump sum of R5 598 604 (returns are an illustration and not guaranteed). Another important consideration is to keep to a budget and minimise debt so that when you get to retirement age, you are mostly debt free and don't have to use your retirement income to pay debt.

Q - How much should people ideally save to ensure they have a comfortable lifestyle in retirement?

How much is enough will depend on the retirement lifestyle you want. Sanlam Employee Benefits Research shows that in the South African retirement industry, the norm is to replace 75% of your current income. For example, if you have a pre-retirement income of R50 000, you would then target a 75% replacement ratio of this income which equates to R37 500 per month. However, people are not saving enough to replace 75% of their final income.

So how do you calculate how much capital you require to sustainably draw R37 500 per month? Let's assume that your life expectancy in retirement is 25 years. Take the income you want and multiply it by 11.4 to make provision for inflation (R37 500 x 11.4 = R427 500). R427 500 x 25 (years in retirement) = R10 687 500 that you will require to provide R37 500 growing with inflation for 25 years.

Q - Do people forget to account for any specific costs (lifestyle costs in particular) and what's the impact of this?

Yes, and medical expenses are a huge contributor. Medical aid premiums increase annually and so does the cost of medication and medical services. As you age, your medical needs may increase, and you need to take that into account when planning your retirement. Currently, electricity and transport costs are also increasing by more than inflation and it is important to understand that over time, inflation will be one of the biggest threats to a sustainable income in retirement. The rule of 72 gives a good indication of how to think about inflation. 72 / current inflation = how many years it will take for the buying power of your capital to halve. For example, 72 / 6.5 = 11.1 years. That means that the purchasing power of your money will, at a current inflation rate of 6.5%, halve in 11.1 years.

In retirement it is a huge benefit if you have other income-producing assets such as property. If you have more than one property, the property you are not living in can offer a good stream of rental income to supplement your retirement income. This also gives you the option to use your retirement income to provide for you and your spouse for life, and to leave the property as a legacy to your children.

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Waldette Stoffberg

Waldette has been a business development manager at Glacier since 2015. She has been in the financial services industry for more than 20 years, and all of them have been spent at Glacier. Waldette has a Bachelor of Arts degree in Political Science and Sociology with an Honours degree in Political Science from the University of Stellenbosch. She obtained a Postgraduate qualification in Financial Planning in 2017 and passed her CFP® Board Exam in February 2018. Waldette is a Certified Financial Planner®.

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