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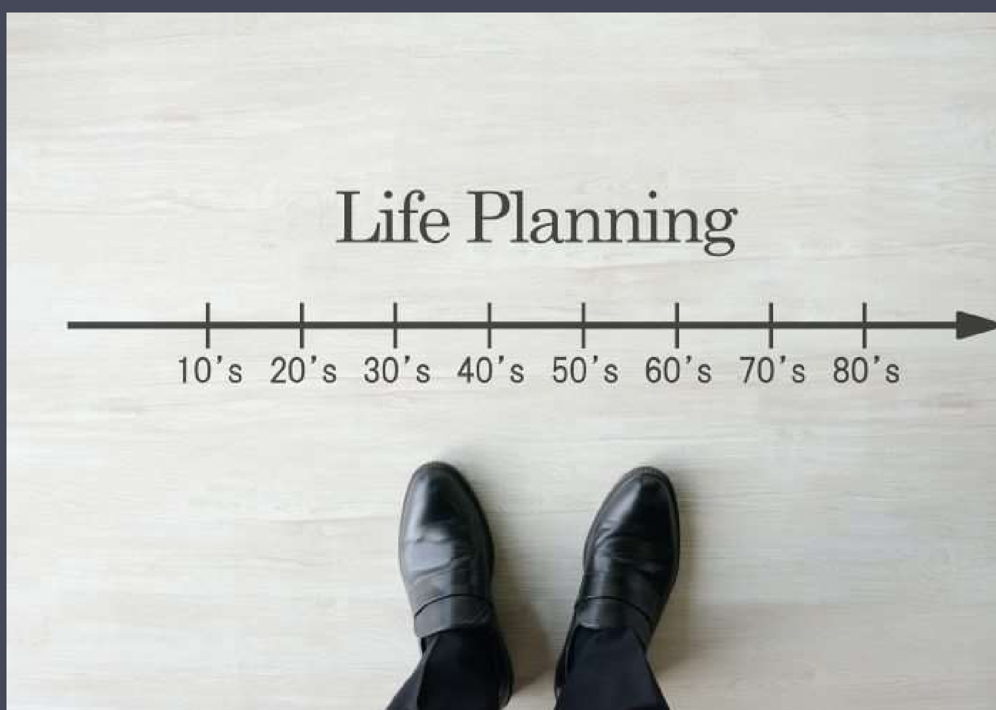
# Will your money last as long as you do?



As life expectancy continues to increase in South Africa and around the world, there is a greater probability of individuals living up to 90 years of age and beyond. While longevity is indeed a positive development, it brings with it some financial challenges.

The question that arises is: “Will your money last as long as you do?”. In South Africa, where economic disparities and retirement challenges are common issues, planning for a secure financial future becomes even more crucial. This article explores the realities of retirement planning in South Africa and offers essential tips to ensure financial security pre, during and post-retirement.

In the past 20 years, the average lifespan of individuals living in Africa has increased much quicker compared to the rest of the world. This is a result of improved healthcare and better living standards, which has led to a demographic shift across the continent. South Africa is no different. According to the United Nations’ World Population Prospects, the number of South Africans aged 60 and above is projected to increase significantly in the coming decades.

This demographic shift has significant effects on both individuals and society. It places a burden on pension systems, healthcare services, and family structures. For individuals, ensuring financial security becomes a significant concern during their retirement. South Africa faces various challenges concerning retirement planning and financial security.

Firstly, many workers in the informal sector lack access to formal pension schemes and employer-sponsored plans, leading to reliance on government social assistance during old age, which may not cover all expenses. Secondly, even those with pension schemes often have insufficient contributions and limited financial knowledge, resulting in inadequate retirement savings and financial difficulties for retirees. Moreover, rising healthcare costs become a burden for people of age, especially for those without adequate insurance coverage or savings. Lastly, high inflation rates diminish the value of retirement savings, affecting those with fixed incomes.

Considering these challenges, below are a few tips on how to ensure financial security.

1. **Know your financial situation:** Start by understanding your financial situation. Take note of your income, expenses, and existing assets. Calculate your net worth by subtracting your liabilities from your assets to get a clear picture of your financial standing. This will help you build a plan to protect and grow your wealth.
2. **Plan for a longer and healthier life:** As people live longer, estimating your lifespan becomes vital for financial planning. Consider your age, family history, lifestyle, and health. While accurate predictions are hard, it’s wise to plan for a longer life. Remember to include rising healthcare costs in your calculations and ensure you have sufficient health coverage and an emergency fund for unexpected medical expenses to stay financially stable.
3. **Budget and save:** Create a budget to manage your money wisely. Identify areas to cut unnecessary spending and increase savings. For example, you might downsize your living arrangements, which can help reduce housing costs.
4. **Diversify your investment portfolio:** Diversify your investment portfolio to reduce risk and maximise potential returns. For instance, you can distribute your investments across different asset classes, such as equities, bonds, cash,

property, and commodities. Each asset class responds differently to economic conditions, which acts as a buffer against market volatility.

5. **Building an emergency fund:** Life is unpredictable, and unexpected events can have a significant impact on your finances. Establishing an emergency fund is vital to protect yourself from financial shocks. Aim to save three to six months' worth of living expenses in an easily accessible account. This safety net protects against unforeseen events and provides peace of mind. Remember to replace funds whenever you use them.
6. **Minimise debt and liabilities:** Having excessive debt can strain your financial security. Aim to minimise high-interest debt, such as credit cards and personal loans, as they can erode your wealth over time. Pay off outstanding debts and avoid taking on unnecessary liabilities. Staying disciplined and making timely payments will help you achieve financial freedom and preserve your wealth.
7. **Consider insurance and estate planning:** Protecting your assets and loved ones through insurance and estate planning is another crucial step. Life insurance, disability insurance, and long-term care insurance can provide financial support in the event of unforeseen circumstances. Estate planning ensures that your assets are distributed according to your wishes, without legal issues and tax burdens.
8. **Continual education and adaptability:** The financial landscape is constantly evolving, which is why it is important to stay informed and adapt to changing circumstances. Continual education about personal finance and investment strategies will empower you to make informed decisions and adjust your financial plan accordingly. Stay updated on changes in tax laws, investment trends, and economic indicators to protect your wealth against potential risks.
9. **Review and adjust your plan regularly:** Life evolves, so revisit your financial situation and adjust your strategies accordingly. Adjust your income to match your expenses in retirement. For example, depending on your expenses and required income, you might consider adjusting your income drawdown from living annuities to match your monthly expenses.

## Examples of clients that secured their financial future through living annuities

### Client A

This client has an income drawdown rate of 2.5%. This is the minimum drawdown rate an annuitant can select. Over the last seven years, their capital has grown from an initial investment value of R4.6 million to R5.1 million. This indicates that the client's investment grew at a higher rate than their drawdown. Instead of eroding their capital through a high drawdown rate, the client's capital has increased. Even if the investment ceases to grow entirely, the client can draw the same income from this living annuity for at least another 40 years. This shows that this client made a wise choice to stick with a low drawdown rate. They can now receive a stable income even if they live to be 110.

### Client B

This client initially began with a 2.5% income drawdown from their living annuity. After some time, they noticed that their capital had grown by roughly R200 000. This allowed them to increase their drawdown rate to 9.0% without eroding their capital. Five years later, they increased their income drawdown even further to the maximum rate of 17.5%. This decision allowed the client to enjoy a higher income and a much more comfortable retirement. Their wise investment strategy of starting with the minimum drawdown and gradually increasing it to the current maximum drawdown rate has proved beneficial, securing their financial well-being into retirement.

With longer life expectancy in South Africa comes a chance to enjoy more fulfilling lives. But to make the most of it, we must ensure our money lasts as long as we do. Retirement planning in South Africa can be challenging, but taking proactive steps and making informed financial decisions will secure a prosperous retirement, even if we live well beyond our 90s.

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Kaycee has established herself as a diligent analyst since joining Global & Local.

She enjoys cooking, makeup, working out, romantic and mystery television shows, and movies. She is a proud member of the Organ Donor Foundation, which is something that most people do not know about her.

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