Publication: Saturday Citizen (Johannesburg Edition), Business
Date: 04 Mar 2017
Page: 28

Pensioner needs R20 000 a month

LIVING ANNUITY: SHOULD LAST 20 TO 25 YEARS, DEPENDING ON RISK

Sonia du Plessis, financial advisor at Brenthurst Wealth, advises a reader on where to place pension money after retirement.

Q: I'm a 61-year-old widower and plan to retire at the end of this year. My current pension value is R4 122 906.10. If I invest my money in a living annuity and require R20 000 per month, how long will my money last?

A: As we haven't done a full needs analysis, my advice will deal specifically with an income requirement of R20 000 monthly and will consider ad hoc withdrawals. Ideally other assets, liabilities, other sources of income and access to any lump sums are some variables needed to answer your question holistically. Your tolerance towards risk, your short- and long-term goals, and dependents are also important considerations. These combined factors will determine your risk profile and portfolio fit.

I have assumed that you have no liabilities or dependents and would be able to take on moderate risk. Without other sources of discretionary capital you may need to consider withdrawing a lump sum to give you liquidity and transfer the balance to a living annuity. At retirement, you should be able to draw 1/3 as a lump sum up to R500 000. It is tax-free as long as you have not withdrawn any lump sums previously.

For the purpose of your query we will assume you have adequate discretionary funding and will be transferring the full amount to a living annuity. If I assume that you require R20 000 before tax, you would net R17 444 monthly and pay approximately +/-R2 556 in income tax.

Using R240 000 per annum on an asset base of R4 122 000, is an income percentage of 5.8%. With inflation over 6%, you need to grow your capital above inflation – more than 11% per annum. As a general rule, we suggest an income withdrawal of 5% or below, but in the current, low-growth economic environment, below 5% would be preferable. This will grow your capital over and above your withdrawal level. Inflation should be monitored on an ongoing basis.

Assuming a worst-case scenario, your funds will most likely last 20 to 25 years. Markets should improve at some point as they move in cycles, which will improve your cashflow projection.

The other alternative would be to consider a traditional or life annuity whereby you receive a guaranteed income for the rest of your life which can accommodate inflationary or annual increases. It is worth getting quotes for a traditional life annuity and to compare this to the risks and benefits of a living annuity.

Contact a financial planner, who can review your personal circumstances holistically. You need to be fully aware of the benefits and restrictions of both a living annuity and traditional life annuity. It is very important to review your financial plan every year with your financial planner.

Send your queries to
editor@moneyweb.co.za