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How do I invest to get a R20 000 income?

IMPORTANT: DO YOU WANT CAPITAL DEPLETED OR UNTOUCHED?

➳ Three of the biggest risks someone close to/at retirement faces are longevity, inflation, and the underlying investment assets – Allan Gray.

Moneyweb

A **Moneyweb reader asks:**

How much would one need to invest to generate an income of R20 000 per month over 20 years?

Sonia du Plessis of Brenthurst Wealth answers:

I'm assuming the reader will need R20 000 per month after tax, and will therefore work on a gross figure of R25 000 per month income required (R300 000 per annum). After deducting income tax, it'll give the reader R20 977 pm after tax. I've only taken the primary income tax rebate into account. If they're older than 65, they'll receive a bigger annual income tax rebate.

Whether the capital should be depleted or untouched after a 20-year period is important. I'll answer both scenarios.

1. To receive a R20 000 pm after-tax income, you'd need R8.5 million starting capital in today's terms. I've assumed capital grows at 6% pa after retirement. The R25 000 pm gross income will cater for a 6% yearly inflation increase. Given the long-term growth trend for equities, we should get 7% to 8% from investments with a reasonable amount of equity exposure.
   If we get better growth of, say, 10%, the picture is a lot different. At the end of the term of 20 years – assuming 6% growth, a yearly 6% withdrawal increase and R25 000 income – the capital will be roughly R8.6 million. I can say with reasonable certainty that we'll get better than 6% growth and therefore better results.
2. I'll assume the reader doesn't need the capital to be intact after 20 years. To receive an after-tax income of R20 000 pm, the starting capital you'd need in today's terms would be R5.7 million. After 20 years, capital will be depleted. I've assumed capital grows at 6% pa after retirement. The R25 000 pm gross income will have a 6% yearly inflation increase, assuming a very low-growth scenario.

An Allan Gray presentation identified three of the biggest risks someone close to/at retirement faces: longevity, inflation, and the underlying investment assets.

If I unpack this, longevity is a big threat to capital. Retirees must make provision that they'll live 30 years after retirement.

SA has a high inflation rate – the long-term average is at least 6%.

One of the biggest risks retirees face is placing their investments in much too conservative assets. It's very important to give the capital exposure to growth assets – the recommendation is at least 50% equity exposure. It's a big risk to have all your retirement funds in money market funds – growth won't keep up with inflation.

The average retired individual on Allan Gray's books takes a 7% per annum income. New statistics show retirees should aim to take an income of 4% of capital in the starting years.

If the reader takes a R300 000 pa income (gross) from R8 500 0000, it works out as 3.5% as percentage of capital.