BRENTHURST GLOBAL WEALTH

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BUILDING WEALTH SINCE 2004

## IN THIS ISSUE

*Retirement planning often underestimates the true impact of inflation, particularly rising healthcare and living costs. Building a diversified, growth-focused investment strategy and reviewing your financial plan regularly can help preserve purchasing power throughout retirement.*



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# CAN YOUR PORTFOLIO HANDLE INFLATED RETIREMENT COSTS?

DOROTHY AVVAKOUMIDES | ADVISOR, BRENTHURST FOURWAYS

Picture a 'typical' breakfast for two at home. Two slices of toast each, with cheese, plus two eggs and milk for your coffees or tea. Ordinary, unremarkable, the kind of thing you don't think about twice.

Until you look at what this daily routine will cost you in retirement.

Whereas this breakfast could cost you around R41 today, using today's average prices, inflation could easily push that cost closer to R180 within just 20 years!

Average inflation of between 6% and 8% since 1995 has pushed this small sample of breakfast ingredients from R4.70 then to the roughly R41 it costs today. Project that same inflation into the future, and suddenly you might look at your retirement plan very differently.

## THE PART INFLATION DOESN'T TELL YOU

Beating inflation is only half the battle. The other half is having enough saved in the first place, and on this front, the industry numbers are sobering. For many years now, retirement specialists have used 75% of your pre-retirement income as the benchmark for a comfortable retirement. That is if you hope to enjoy a similar lifestyle once your expenses - commuting, work clothes, and retirement contributions included - fall away.  Industry figures, however, show that the actual net replacement ratio most South Africans are on track for is between 30% and 38%.

Here's what that gap looks like in real terms.

If you were earning, say, R100,000 per month before retirement, then you'd need around R75,000 per month in retirement. If, however, your saved funds allow for only a 30% replacement ratio, you'll have just R30,000 available per month.

That means a rather severe scaling back of your retirement ambitions.

## WHY YOUR INVESTMENT STRATEGY HAS TO WORK HARDER

Avoiding this situation of old-age costs overtaking your saved funds isn't as difficult or alarming as it may sound. The key is for your investments to grow at a faster pace than inflation.

Because, in reality, if your retirement fund grows at 5% a year while inflation runs at 7%, you're losing buying power every year. However, if it grows at 10% while inflation is at 7%, you're gaining about 3% in real terms, and that's the number that actually matters.

It's only human nature, but many people choose conservative, low-risk investments because they fear losing money when markets appear risky.

The problem is that if you're planning for a 20- or 30-year retirement, playing it too safe poses a risk. You might not like the idea of holding some equities because of the risk of a market correction, but equities have historically been one of the most reliable ways to outpace inflation over the long term.

## WHAT YOU CAN DO ABOUT IT

There really is very little that we as individual investors or pension fund contributors can do to influence the market. So, we have to accept that prices may rise and they may fall.

What we can control, however, is the habit of continued monthly contributions to retirement funds and savings. The most crucial discipline is to stay invested when markets get bumpy because you lock in your losses if you sell when they bottom out.

And be proactive: review your retirement strategy regularly and keep an eye on whether it's getting you to the replacement ratio you're going to need when you retire.

The true test of your retirement savings isn't the number on your statement. It's what that number can still buy you, and whether you'll be able to splurge R180 every morning on a simple, home-cooked breakfast in 20 years' time.

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