



**MEDIA RELEASE**  
**February 2019**

## **Will the retirement of your dreams be beyond your means?**

Working out how much is JustEnough to save for retirement is sometimes not a priority when simply making ends meet is a struggle. But realistic retirement planning is important if we want our retirement income to match what we expect it will be.

“South Africans are underestimating the proportion of their retirement income they will need to allocate to basic living expenses and the amount of money they will need for discretionary income. In fact, we found in the latest Just Retirement Insights that there is a major gap between expectation and reality,” says Bjorn Ladewig, longevity actuary at Just.

According to Just Retirement Insights – independent research commissioned by Just – South Africans’ expectations of what their retirement income will be, based on current savings and returns, will not be realised. On average, respondents expect a monthly income in retirement of almost R12 000. This implies an expected annual income rate of 8%, based on their average retirement savings of R1,8 million. However, in current market conditions this expectation is not achievable – guaranteed lifetime income that targets inflationary increases provides an annual annuity income rate of approximately 6,5% for a couple where the male is aged 65 and his female spouse is aged 61.

This means that, to achieve the expected level of income, 22% more needs to be saved to reach R2,2 million. Even worse, if the expected level of income is to be achieved through a living annuity, a retirement saving of R3,6 million is required. This figure is based on the draft maximum sustainable income rate recommended by the Financial Sector Conduct Authority for living annuities for a similar couple, which is only 4%, compared to the 6,5% above.

### **The gap is a problem for all**

The gap between expectation and reality is evident for all income groups, as the following survey results from Just Retirement Insights show:

---

Just Retirement Life (South Africa) Limited, trading as Just • Registration Number: 2014/099601/06  
Registered address: G01 Big Bay Office Park, 16 Beach Estate Boulevard, Big Bay, 7441, Cape Town  
Tel: +27 (21) 200 0463

Directors: P.R. Doyle • D.C. Moore • G. Pienaar • P.J. Turner (UK) • H. Wessels

*Just Retirement Life (South Africa) Limited is a licensed long-term insurer and an authorised Financial Services Provider.*

<b>Current household monthly income:</b>	<b>Income rate* expected based on existing retirement savings:</b>
Up to R10 000	6,7%
R10 000 – R50 000	7,1%
R50 000 and above	13,8%

*\*Income rate is the annual income divided by the retirement savings pot*

These expectations are not realistic if compared to the 6,5% income rate achievable in current market conditions, as set out above, for a typical retiring couple. This “expectation gap” is even bigger for higher-income groups.

### **The impact of debt and longevity**

According to the Schroders Global Investor Study 2018, South Africans are under-saving by six percentage points, when looking at what they expected to get out of retirement savings, compared to what they put away.

The study shows that retirees are receiving a much lower proportion of their final salary in retirement (59%) compared to an expectation of a comfortable 80% of final salary. This contrast is far greater than what is being experienced globally, where retirees predicted that they would need an average of 74% of their current salary or income to live comfortably in retirement, but are receiving 61% of their final salary annually.

Approximately 56% of middle-income consumers in South Africa spend all their monthly income in five days or less after receiving it. This is according to data from FNB’s Retail segment, which categorises middle-income consumers as those who earn a gross monthly income of between R7 000 and R60 000. High spending and limited savings cause consumers to rely on credit to get through the month, making them more vulnerable to being caught in a debt trap and less able to save comfortably for retirement.

Putting off saving for retirement until later in life (even in higher amounts) rarely outperforms earlier savings, because of the impact of compound interest – earning interest on the interest you have already earned. Compound interest has a positive snowball effect on your savings, which means that the earlier you start saving, the better.

According to a BBC article written by Brian O’Connor (*“The unrealistic expectations of retirement behaviour”*, 2019), a survey from American financial services company Northwestern Mutual showed that one in three baby boomers has \$25 000 or less saved. According to Money Advice Service, most retirees also underestimate how long their retirement years will last. Only planning for 20 years may mean running out of money – especially as men and women aged 65 in South Africa have a 50% chance of living beyond ages 83 and 87 respectively.

Our later years may require more money because of end-of-life care – something that is not always factored in when saving for retirement. “People aren’t considering that they will be living for longer,” says Ladewig. “If we do need care in our old age, we may need it for many more years than we think. Recently, the oldest man, Masazo Nonaka, died in Japan at the age of 113, according to TIME magazine.”

### **Talk to a financial adviser**

It is imperative for those reaching retirement to get the right financial advice when investing their retirement savings which are meant to last them for the rest of their lives.

Peter Chadborn, director of Plan Money, a UK financial advisory firm says, “People should put their expenditure requirements into two columns. One is the essential living costs that you want to secure with a fixed income source. Only then can you approach column two, which lists your discretionary lifestyle costs: how often you want to eat out, how many cars you want to own and how often you want to go on holiday.”

Those facing a retirement income shortfall would have to consider working for longer, downsizing their homes and cutting down on expenses where possible.

The best way to plan for retirement in an uncertain economy is through solid preparation and by setting realistic expectations. “Seek financial help earlier rather than later if you think you will need that,” says Ladewig. “When you are ill you contact your doctor; why hesitate to contact a financial expert if you have a money issue?”

“The best solution for many retirees could be a combination of a guaranteed lifetime income to cover essential expenses and care costs for life, and a living annuity to invest additional retirement savings to cover any other lifestyle costs. Ask your financial adviser how,” concludes Ladewig.

ENDS

Notes to editors:

In 2018, Just commissioned an independent, quantitative face-to-face research survey amongst a representative sample of 345 respondents between the ages of 55 and 85 years in the major metropolitan areas of South Africa. Just performed a similar survey in 2015.

\* Guaranteed life annuities can provide an annual annuity income rate of 6.5% for a couple where the male is aged 65 and his female spouse is aged 61. Annual increases targeting inflation are also taken into consideration.

## **An appropriate solution:**

Living annuity investors can benefit from thinking about their retirement assets in two portions:

- One that secures a level of lifetime income that will meet their essential expenditure needs for life (food, accommodation, utilities, medical, transport, insurance) and is targeted to grow with inflation.
- The other to meet their needs for a rainy day, and for long-term growth for themselves and their beneficiaries, knowing that their essential expenses are covered.

Given that their essential expenditure is already covered for life, this allows investors to be more adventurous in pursuing long-term investment returns without changing their overall risk appetite.

Just Lifetime Income is an asset class designed to provide sustainable income for life in order to meet essential expenditure needs. It is available as an investment option within selected living annuities, and has the following key benefits:

- The investor receives a lifetime income that will never reduce, regardless of what happens to investment markets or how long the client (and their spouse where applicable) lives.
- The lifetime income is increased each year at a rate that targets inflation. The increase is linked to the returns of independent asset managers with no insurer discretion, and is smoothed.

Below is an illustration of the percentage income which the asset class would provide in various scenarios:

<b>Starting income as a % of amount invested</b>	<b>Age 65</b>	<b>Age 75</b>	<b>Age 85</b>
Single male	8,0%	12,5%	20,5%
Single female	6,5%	10,0%	17,0%
Married couple (spouse 4 years younger, income unchanged on death of investor)	5,0%	7,5%	11,5%

These starting income rates are lower than the income rate referred to in the article, as higher increases are expected with this asset class.

## **Who would benefit most from Just Lifetime Income?**

The following people would benefit from investing in Just Lifetime Income at retirement:

- The typical person or couple at retirement wanting to cover essential expenses for life and invest the balance of their assets to maximise long-term growth
- The living annuity client who is drawing more than 5% and starting to consume capital
- The widow who is seeking to sustain income
- The person who has recently had a severe medical event
- The person who wants to ensure that essential expenses and frail care costs are covered in case dementia strikes
- The healthy and wealthy person looking for a diversifying asset class that increases in value with increased longevity: they can accumulate these lifetime income payments in their living annuity without having to draw them. This provides a very interesting diversifying asset class where part of the return comes from their own longevity.

### **About Just South Africa**

Just South Africa is a specialist retirement income company regulated by the Financial Sector Conduct Authority under the name Just Retirement Life (South Africa) Ltd.

We focus on addressing the widespread, recognised problem of people outliving their assets in retirement.

Just South Africa was founded in 2014 as a subsidiary of the UK-listed business, Just Retirement Group (now Just Group). Managed and staffed by an experienced local team, Just South Africa packages attractive retirement income solutions by combining:

- intellectual property developed in the Group to determine an individual's lifetime income based on their own lifestyle factors and medical conditions;
- international best practice with respect to risk management and corporate governance; and
- partnership with high-performing specialist asset managers.

Our focus is on treating each customer fairly, improving customer outcomes at and in retirement, and providing guaranteed lifetime income.

Just's initial product offering was selected by Moneyweb as one of the top 10 innovative financial products when it was launched in 2015.

### **About Just Group**

Just South Africa is part of the Just Group, an international company listed on the London Stock Exchange.

#### **Just Group fast facts:**

- Market capitalisation of R35bn.
- Over 500 000 customers.

- Assets under management of R300bn.
- R14bn in individual annuities written in the last year.
- R23bn in group premiums in the last year.

**Just Board members:**

In South Africa, Just has a Board and management team known for their experience and groundbreaking achievements. CEO Deane Moore leads a local executive team with average experience of 20 years per head in the South African life insurance and UK enhanced annuities markets. Together the team designed and launched the world's first guaranteed income product, with optional medical underwriting, that links annual increases to the performance of specialist asset managers.

Deane Moore, CEO of Just South Africa, spearheaded the design and launch of South Africa's first inflation-linked annuity. He has extensive local and international experience in corporate development and strategy, marketing, and investment services. Deane has held senior positions at MMI Group, Friends Provident (UK) and PricewaterhouseCoopers.

Peter Doyle, Board Chairman of Just South Africa, developed the Doyle model in 1990 for projecting the incidence of HIV-AIDS in the South African population. He is also a previous CEO of Metropolitan Life, past president of the Actuarial Society of South Africa and was a member of the Executive Committee of the International Actuarial Association.

Herman Wessels was previously an audit partner responsible for audits of the major South African life companies at PricewaterhouseCoopers. He is also a past chairman of the Public Accountants and Auditors Board and is non-executive director at a number of significant South African companies.

Paul Turner is Group Managing Director of Retirement Lending, International and Group Development at Just Group in the UK. Paul was previously the principal officer of Swiss Re Singapore branch and was also head of life & health for South East Asia. Paul has over 20 years' experience in the insurance industry in the UK, Australian, New Zealand and Asian markets. He is also an associate of the Chartered Insurance Institute.

**Issued by:**

Lisette Lombard

Firefly PR

Independent Communication Consultants

Tel: 082 836 8036

Lisette@fireflypr.co.za