

This is how much you need just for medical aid in retirement

Are you prepared for the impact of this recurring cost?
Patrick Cairns 2019/06/19 05:16:45 PM



With an annual increase of 15%, a member's medical aid contributions will double every five years.
Photographer: Andrew Harrer/Bloomberg

The generally accepted wisdom is that when you reach retirement you need to be able to secure an income equal to 75% of your final salary. This is because there are many expenses that you can trim once you stop working.

Most obviously, you no longer need to save for your retirement. So the contributions that you were making to your pension fund and retirement annuities can be cut.

You also won't be travelling into work every day, which hopefully means that you won't need to spend so much on petrol. If you and your spouse were using two cars before, it might even be possible to downsize to one and cut the insurance and maintenance costs associated with the second vehicle. There is also always Uber if the two of you need to be in different places at the same time.

Since you no longer need to dress for the office, you might also save on clothing. There will probably be less need for formal wear and shoes.

Up and up

There is however one expense that is not going to decrease. In fact, if recent history is anything to go by, it is probably going to increase ahead of any other cost.

"Over the last few years, the average increase in medical aid contributions has exceeded inflation by 3% to 5% per year," says Karen Wentzel, head of annuities at Sanlam Employee Benefits.

According to Sanlam, the average contribution for an adult member is now between R3 000 and R5 000 per month. In many cases, individuals who are still working will have part of that paid by their employer. In retirement, however, you're likely to be on your own.

As your medical requirements are almost certain to increase as you get older, it's also realistic to expect that if you are not on the most comprehensive medical aid plan when you retire, you will have to move onto it sooner or later. This may further increase the cost.

Taking inflation into account, Wentzel suggests that retirees should even allow for contributions to increase between 10% and 15% per annum to ensure that their needs are met.

"With an increase of 15% in contributions, your medical aid contributions will double after every five years," she notes.

“Unfortunately no pension fund will pay increases of 15%, thus your medical aid contributions will be a bigger portion of your income every year.”

The numbers

This is a reality that retirees need to plan for. Your health is, after all, something that you never want to compromise. However, few people appreciate exactly how much capital is required just to meet their medical aid expenses.

The following table puts this into perspective:

MEMBER	MONTHLY CONTRIBUTION	INFLATION PLUS 3%	INFLATION PLUS 4%	INFLATION PLUS 5%
 AGE 55	R5000	1 544 170	1 803 459	2 129 362
	R5000	1 313 927	1 499 655	1 725 488
	R5000	1 099 905	1 229 225	1 381 762
 AGE 55	R5000	1 771 671	2 103 996	2 529 905
	R5000	1 520 531	1 761 014	2 058 528
	R5000	1 281 024	1 449 799	1 651 902

Source: Sanlam Employee Benefits

What this shows is that a woman who retired today at age 55, and whose medical aid costs increased by 3% above inflation for the rest of her life, would need retirement capital of R1.77 million just to cover that expense.

“A couple consisting of a male aged 60 and a female aged 55 will need between R3.5 million and R4.5 million to cover their life-long medical aid premiums, assuming a monthly medical contribution of R5 000,” says Wentzel.

This illustrates how important it is to understand what a lump sum at retirement is actually worth. While R4.5 million sounds like a lot of money, it may only be enough to meet a couple’s medical aid needs, never mind their other living expenses.

This is certainly one area where you can’t afford to be caught short. When saving for retirement, it’s important to appreciate what you are working towards, and to understand just how much you need to set aside just to make sure your health is taken care of.

<https://www.moneyweb.co.za/mymoney/this-is-how-much-you-need-just-for-medical-aid-in-retirement/>