

Impact of inflation on retirement annuities

The weakening rand, record maize prices, and the country's current account deficit, has worsened expectations for South Africa's inflationary outlook. South Africa experienced a steady increase in inflation month by month in 2013 and Absa Capital forecasts that inflation could reach 6.1% in 2014.



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When it comes to selecting retirement annuities, inflation is often overlooked as a key consideration by the public. Industry experts are increasingly voicing their concerns over the impact of inflation on retirement provisions as well as the idealistic and commonly held view that the average company pension fund will suffice.

Individually tailored products

Mark Kitching, head of Absa Linked Investments at Wealth and Investment Management says South Africans need to carefully consider what return they are likely to receive on their retirement investments versus proportional contributions towards rising inflation. "Although many people are aware of possible long-term inflationary impact, they do not take the necessary time to select individually tailored retirement annuities which will provide them with a comfortable income in their dotage.

"It is our responsibility to support a sustainable base for our customers to plan well for retirement. Education is an important part of this. An immediate way to counteract the effects of inflation on retirement annuities is to look at increasing contributions to existing portfolios as well as considering taking out additional policies," Kitching explains. "It's also crucial to perform an annual review of your retirement portfolio, looking at it as part of your holistic financial well-being. Remember to look at the reduction in the yield of the product(s) over time. Any current reduction yield uses an assumed rate of return which needs to be reassessed. This is one of many common and potentially costly mistakes which people make when choosing retirement annuities."

Pay attention to costs

It is critical to pay attention to the long-term costs and structures of any retirement annuity in order to receive maximum benefit from the product. In high-inflationary environments, inflation-linked investment policies are becoming increasingly popular.

"It may sound obvious, but a key aspect of planning your retirement is taking advice appropriate to your particular situation in order to ensure that your individual needs are taken care of. What works for some people might not be appropriate for others, but everyone should be planning for retirement and it's never too early or too late to start," Kitching concludes.

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