READERS WRITE

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lifestyle

Readers ask whether it is better to invest a lump sum or pay monthly towards retirement funding, how much you should really be saving for retirement, and how to find out if you have been included in someone's will

What happens to my retirement income when I DIE

There are two options for your funds when you retire. You should **choose carefully**

Mike writes:

After you have gone on pension, your retirement annuity will be paid out as monthly income. But is it true that this will stop paying an income when you die, no matter how much of it has been paid out? What about any dependants who might still be alive without any further payments?

Nico-Louis Minnie, Head of Wealth Platforms at Liberty Investments replies:

This is not entirely true. When you reach retirement age, the proceeds from your retirement annuity have to be used in a certain way but it is not as restrictive as you might think.

Up to a third of your retirement annuity can be withdrawn and taken as cash.

The remaining two thirds must be used to secure an income in retirement. There are two ways of doing this, either through a life annuity or a living annuity.

A life annuity pays a monthly pension (level or escalating) for as long as you live.

The payments cease upon death and nothing is bequeathed for your beneficiaries. Many annuities come with a guarantee period of five years, in which case the income will continue to pay out to your dependants for the full five years if you die before that time.

You can increase the guarantee period but then you will receive less monthly income.

There are options available that will allow the pension to be paid to a spouse even after the death of the main recipient - this is important if your spouse is relying on you for financial support.

The main attraction of this type of annuity is that you can never outlive your money since the life annuity will pay a monthly pension for as long as you live, irrespective of market or economic conditions.

Under the living annuity option, you invest the proceeds from a retirement annuity in an investment account that grows in line with the selected investment portfolio.

The monthly pension is then drawn from this investment, but it is not guaranteed. If there are poor investment returns, or if you draw too much out of it, you could run out of money.

The benefit of this annuity is that it provides income flexibility. Your beneficiaries receive the amount that is left in the investment at the time of death. This is only a good option if you can live off 5% of your capital, otherwise you will run out of money quite quickly.

City Press replies:

It is best to get financial planning advice on which is the best option for you. Be careful about worrying too much about leaving money to your children at the cost of not having enough for your retirement income.

As you are still some time away from retirement, this is a great opportunity to find out if you have enough for retirement and to save more if not. The more money you have, the more choices you'll have available.

How should I divide my salary?

Mandla writes:

How much of my salary should I be spending on various living expenses?

I work on a contract basis and have no benefits from the company at all.

City Press replies:

A lot depends on your personal circumstances. For example, someone with three children would be spending more money on school fees than a family with an only child. If you live far from work, you may spend more than others on transport.

But there are some rules of thumb that you can apply. They may help show where you might be overspending.

Debt counselling specialists Octogen researched what a typical household spends as a percentage of their budget. This is what they believe is best:

35%

On household expenditure: this includes food, communications, entertainment, security, domestic wages, travelling costs, water, electricity and school fees.

25%

On financial services: this includes long-term life assurance products, short-term insurance, medical aid, pension contributions and longer-term savings.

You should save at least 15% of your total salary in a retirement annuity if you hope to have a comfortable retirement one day.

If you are over the age of 30 and have not started to save, you will need to increase this to at least 18%.

35%

On debt repayments: this is the absolute maximum you should ever be spending on debt - the less the better. This includes your mortgage (or rental), car repayments, credit cards and store cards.

When taking out a mortgage, make sure your repayments are not more than 25% of your income.

5%

On emergencies: this is money allocated specifically for emergencies, not long-term savings.

What Octogen found in their research was that debt was the biggest culprit when it came to overspending.

The average household spends about 47% of its budget on debt repayments.

They also found that on day-to-day spending, many young people tended to overspend on entertainment - a lost opportunity for saving.

Am I included in a will?

Elisabeth writes:

A friend promised to leave me everything in his will. Now that he has died, how can I find out if he did leave me anything?

Aaron Roup, the secretary of the Fiduciary Institute of SA (Fisa), replies:

One can only formally pass on a benefit to another via inclusion in a will. A verbal remark that one plans to bequeath all his or her assets to someone else can only be reinforced if the person who dies stipulated a specific award in the last will and testament.

Once an estate has been lodged with the Master of the High Court, the will becomes a matter of public record.

Anyone can request a copy of a will to ascertain whether they have been left anything in it.

Other than that, it is difficult to enforce a glib comment as a formal decision by the deceased. Even if others were witness to this comment, provision needs to be made in the will for it to be valid.

Fisa chairperson Angelique Visser adds:

If you suspect you may be an heir in an estate, you can contact the Master's office to find out.

The first step is to determine at which Master's office the estate was registered. You can search on the Master's portal if you have the deceased's full names and identity number (**icmsweb.justice.gov.za/mastersinformation**)

Once you have the estate details, you can request a copy of the will from the Master. The fee for a copy is R4.50.

Proof of payment should be attached.

Lump sum or phase in?

Veni writes:

I have saved R700 000 in a money market account and am looking for growth over at least 10 years.

I now wish to invest the money in a unit trust. Should I invest this over a period of time or as one lump sum?

City Press replies:

A crystal ball would be useful right now as it would tell us exactly when the right time would be to invest in the market.

There is no right or wrong answer. Over 10 years, an investment in a growth unit trust fund should outperform inflation.

However, people are nervous about the current levels of the stock market.

We sent this question out on the twittersphere to see what money managers thought.

The reaction was mixed. Some pointed out there is no evidence to suggest phasing in over time provides any better return than simply investing a one-off lump sum.

Others suggested caution, given the levels of the market.

Ultimately, it is an emotional question - if you invested a lump sum today and the market fell tomorrow, how would you feel?

And what if you knew that over the next 10 years, your investment would recover well enough to deliver an above-inflation return?

If you invested over the next six months and the market continued to rise, would it bother you that you did not invest a lump sum?

You need to implement a strategy that you know you are comfortable with, irrespective of market movements.