

Options for a pensioner to invest R1m

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A *Moneyweb* reader asked: *My aunt, aged 73, recently sold her primary residence and is living with her son and his family. She received ±R1 million from the sale of the house. How much or in what products should she invest to receive at least R20 000 per month?*

The answer:

Drawing R20 000 of income per month from a capital amount of R1 million is a very high draw-down rate that will result in capital erosion over time. However, there are options that can be explored in order to get as close to

that income level as possible.

The first option could be investing the full R1 million in a regular unit trust investment whereby an income of R20 000 per month or R240 000 per year is drawn. Using a simple capital preservation calculator, we can make a fairly accurate prediction of how long this money will last.

Assumptions:

- ▶ There is no need to increase income year on year; and
- ▶ The return is 10% per annum.

Using the above assumptions, the R1 million capital value will be totally exhausted after ±six years.

This is also a best-case scenario where the market does relative-

ly well for the foreseeable future.

Another, perhaps better, option would be to buy a voluntary life annuity with the R1 million.

A life annuity is a financial product that features a predetermined periodic payout amount until the death of the annuitant.

The downside of this type of structure is that the policy ceases on death (meaning no money will be passed on to beneficiaries).

After getting quotes from various institutions, purchasing a R1 million life annuity should provide your aunt with an income stream of ±R11 000 per month for life.

This quote has been structured using these assumptions:

- ▶ Single life annuity;
- ▶ No annual increase in income; and
- ▶ No guaranteed term (policy ceases on death).

From a pure income perspective, a voluntary life annuity does appear to be the best option for your aunt. However, to have this question answered fully, I suggest getting in touch with a qualified advisor who can guide you in the decision-making process after reviewing your aunt's full financial information relating to things like ad hoc liquidity and legacy requirements.

▶ *Braans is a private wealth manager at NFB Private Wealth Management*