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Plan ahead for your healthcare expenses during retirement

Neglecting to plan for healthcare costs in retirement may just be a dealbreaker when it comes to being able to access quality healthcare in your golden years.

Statistics South Africa (Stats SA) recently noted that 47 million South Africans are without medical cover, and this is indeed cause for concern.

People often fail to realize medical costs will make up a large part of their expenses in retirement. According to Stats SA's recent census profiling of older persons in South Africa, 38% of South Africans over the age of 60 use chronic medication, around 20% use assistive devices such as spectacles, 10% wear hearing aids and 5% use wheelchairs, all of which are not fully covered if you are on medical aid and would need to be paid for out of your pocket.

When planning for retirement, you also need to consider that medical inflation is 3-5% higher than standard inflation. This means the ability to afford your medical aid and related expenses years down the line will be hampered by the eroding effect of inflation on the buying power of money. To afford the same medical care you are accustomed today in 20 years' time, you should budget a larger part of your income towards medical expenses than you currently do.

Research shows the average replacement ratio (the ratio of the income you receive from your pension once retired) for South Africa's retirement industry is estimated at just 25 to 30% according to an analysis by Discovery Invest Technical Markets. This implies that, on average, people with some form of retirement savings can expect to receive the equivalent of just over a quarter of their income at retirement as a post-retirement income. That means South Africans are seriously underestimating the impact this will have on their quality of life.

The following savings options is suggested to manage healthcare expenses in retirement:

1. Retirement Annuity

A retirement annuity can be useful for funding medical expenses, gap and dread disease cover and offers tax deduction within allowable limits while contributing to your retirement annuity and post retirement.

2. Medical aid and Gap cover

With medical aid in place, you are covered for in-hospital and out-of-hospital expenses. The additional benefit of gap cover further safeguards you and can assist with covering shortfalls in medical expenses or emergencies that result in additional unforeseen expenses.

3. Dread disease cover

This is a worthwhile consideration to cover your costs should severe illnesses like dementia or cancer (which can have immediate consequences for your lifestyle, with significant financial implications) come your way. With dread disease cover in place, you can receive a lump sum upon diagnosis, which may help with expenses and lifestyle adjustments.

Identify medical costs as a goal within your savings plan. Sanlam's Goal Manager presents a new-age solution to an old-age problem by enabling people to financially prepare to maintain their health and quality of life in retirement.

Sanlam's Goal Manager is a useful tool, which shows South Africans a real picture of what the cost of medical aid will be in the future. It enables you to input any existing provisions, which are then calculated by Goal Manager using existing costs and factoring in inflation to show you what the starting premium would be. This will enable you to save and afford medical aid in retirement.