



Financial advisers' exclusive focus on the quantitative value of retirees' capital neglect the consideration of socioeconomic factors in the retirement planning process



Retirement planning is a complex process that requires careful consideration of various factors. A recent study to determine the variables that shape the retirement landscape for retirees concluded that the exclusive focus on the quantitative value of retirees' capital instead of incorporating a process to understand the socioeconomic factors shaping the retirement landscape often precludes pensioners from a secure and fulfilling retirement.

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The term “socioeconomic” refers to the interaction between a group of people's social and economic habits. It can also be explained as studying people's behaviour in the context of their economic realities. Within the context of retirement planning, it is fair to say that many more factors are involved than only focusing on the quantitative value of retirees' capital.

The quantitative value of retirees' capital, sometimes expressed as a “retirement readiness score”, is accepted as a critical component in retirement planning and will not be discussed further in this article. What is very interesting, though, are the variables that, in addition to capital, were identified as essential elements that must be addressed in a holistic retirement plan.

Retirees identified fourteen essential variables. This article looks at three of these in some detail.



Long term care expenses

With known factors such as existing health conditions, spouse and own family medical history, a sobering 71% of respondents have indicated that they have not planned to deal with potential long term medical care expenses. Add to this that 67% of respondents indicated that they are extremely concerned that their existing health conditions or possible future health conditions may affect their retirement finances, then, it becomes clear that long term care expenses are mostly overlooked during retirement planning. Taking into account the health needs of both partners ensures the well-being of the entire household.

If statistics from the USA are anything to go by, South African retirees face serious risks. About one in five retirees can expect to pay total costs of \$100 000. Most who require long term care only need it for two years or less but at a cost of \$250 000. On the positive side, 52% of retirees can expect to pay zero long term care costs. Either way, long term care expenses could potentially derail a retirement plan completely

Socialisation and Isolation

Socialisation plays a significant role in maintaining mental, emotional and physical health during retirement. Sixty-five percent of retirees have indicated that having a social network (for example, family, friends and community) is essential for assistance or emotional support during retirement. Seventy-seven percent of respondents have a specific need to engage weekly, or at least monthly, in social activities or participate in community events.

It is important to recognise that retirees' socialisation needs and preferences may differ. Some retirees may thrive in a highly social environment, while others prefer more intimate or solitary activities. It is essential however, to recognise that access to social support networks, opportunities for leisure and engagement in the community significantly impact retirees' overall well-being.

Discussions about where to live after retirement, changing family structures as a result of children and other family members emigrating and the death of a spouse are vital considerations in planning to avoid becoming isolated in retirement years.

Rising healthcare costs

The impact of existing health conditions or potential future health issues on retirement plans cannot be underestimated. Ninety percent of respondents indicated that they are very concerned about rising healthcare costs. To give more perspective, sixty percent of respondents indicated that the rising cost of prescription and chronic medicine is a huge concern.

This underlines the fact that healthcare expenses, including treatments, specialised care and medication, can place a significant strain on funds in retirement.

Raising awareness in the retirement industry

Financial service providers invest a significant amount of time and money in the development of financial advisers. They equip them with knowledge about products, legislation and the art of financial planning. Product providers and asset managers equally go to extreme lengths to create awareness about their products and solutions.

But despite all these sincere efforts, financial advisers still lack guidelines and criteria to understand retirees' socioeconomic needs. With more South Africans living past the age of 60 and growing older, is this not the time for financial service providers to make the incorporation of the socioeconomic factors that shape the retirement landscape a compulsory part of retirement planning? A well-rounded retirement plan must go beyond the traditional capital considerations and encompass the socioeconomic realities of a post retirement world.