

Why is life so expensive?

In our last newsletter we discussed the importance of investing consistently from the very start of our careers to ensure a comfortable retirement. This time around, we look at why this is becoming increasingly difficult in South Africa. We also offer some handy tips on how to combat the uncomfortable truth that life is getting more and more expensive.

Real inflation rates

Many of us fall into the trap of thinking that if our salaries keep up with inflation, we should be able to continue to afford everything in our budgets. The reality is, however, that the general inflation rate (CPI) is based on the value of a basket of goods and services which isn't representative of the 'basket' used by the wealthy.

Let's look at the real inflation rates of a couple of big-ticket items:

Medical aid contributions have increased by 3–4% above CPI since 2010* and this gap will likely widen when proposed changes to the Medical Aid Act kick in. Worse still, compulsory contributions to the National Health Insurance fund will further increase the cost of medical care.

The rising cost of education also continues to outstrip inflation. The gap has widened from around 2% in the early 2000s to more like 4% in 2017**. This isn't likely to get any better either, as we'll have to cross-subsidise students who qualify for free tertiary education.

It's impossible to ignore the recent fuel price hikes and the ripple effect they'll have on the cost of many commodities, including food. Even if the cost of crude oil drops again, we'll probably have to get used to higher food prices in the long run as we know that prices are sticky downwards.

The ever-needy taxman

Tax is one of our most significant expenses and the taxman is always lurking in the shadows hoping for a greater slice of the pie. Dividends withholding tax has increased from 15% to 20%, and the capital gains tax inclusion rate has risen from 33.3% to 40%.

Don't forget bracket creep which is when salary increases shunt you into a higher tax bracket. There are also the medical tax credits which have remained unchanged despite increased medical aid contributions.

What's more increases in the cost of water and electricity should be seen as 'taxes' brought about by inefficiency. While there's no point in moaning about increases in taxes to address the inequality in SA, we'd all prefer the funds not to be whittled away by corruption.

The cost of longevity

In the past, we did our retirement calculations based on the assumption that you'd live for 25 years in retirement. We now base the sums on a 30-year retirement to account for longevity,

which thankfully, is becoming the norm. What's more, we've had to adjust the expected growth rates of retirement funds from 6% down to 4% above inflation to factor in the changes in the market.

Put simply, we're all obliged to invest more into our retirements funds every month, which leaves us with far less to live on *now*.

Don't worry, be happy

Luckily, human beings are super-adjustable (ask Darwin) which is why we've survived so long. Embracing minimalism as the new black doesn't have to be a chore - it could even be fun.

These are some great savings ideas:

- Prioritise the expenses that count: education, medical costs, retirement contributions
- Settle all debts and use your credit card as a debit card
- Review your DSTV and newspaper subscriptions – consider streaming (Netflix is only \$10/month) and reading the news online
- Cancel your gym subscription if you don't use the gym at least three times per week
- Take the bold step of downsizing your accommodation if your mortgage payments exceed 35% of your gross income
- Shorten your holidays and spend at least one of your weeks of leave enjoying your hometown
- Pack lunches for work
- Set up automated contributions to an emergency fund (e.g. a money market unit trust fund)
- Gift your loved one's investments as opposed to more unnecessary stuff
- Install timers on your hot water cylinders (it only takes 45 minutes every morning)
- Find a 'side hustle' you love and earn some extra cash
- Excel in your day job so you can negotiate a better annual increase (and feel good about life)

The bottom-line

Things aren't going to get much better. Businesses can't afford to increase salaries by more than the standard CPI unless productivity increases. We must always remember that the standard of living in SA used to leave other countries in the shade. It's unrealistic to expect this to continue as we attempt to become a first-world nation.

If you embrace the cost savings solutions mentioned above, you may even end up feeling happier. There's a lot to be said for taking back control and eliminating wasteful expenditure.

Sources:

*<https://econex.co.za/unpacking-health-inflation-in-south-africa/>

**2017 Long-term Perspective Report Old Mutual