How to sustain your pre-crash retirement income

[Cape Town, 16 April 2020] Life annuity rates have increased by 10-15% since the beginning of the year, which offsets the reduction in market values most people in or close to retirement have experienced in the recent market crash.

In other words, you're currently able to get a higher income from each Rand of your retirement capital if you invest it in a life annuity today than you were three months ago – in fact 10-15% higher. This is because bond yields have increased significantly. However, this window of opportunity won't last forever.

The increase in bond yields is driven by a number of factors, including investors' aversion to risk since the market crash in early March and the ongoing COVID-19 pandemic.

Whether you're approaching retirement right now, or already retired, a life annuity will insure you a guaranteed income for life, an option that for many investors probably seems very attractive right now.

"Many investors, whether retired or not, have experienced a significant reduction in their retirement capital," says Deane Moore, CEO of Just, a financial services firm specialising in retirement income solutions. "As a result, if you're invested in, or thinking of investing in an old-style living annuity, you'll have to draw down more capital to sustain your standard of living today than you would have had to in January."

Of course, as you're eating into your capital at a higher rate, it will diminish more quickly, and you might run out of capital just when you need it most – when you're older and more vulnerable. A life annuity on the other hand provides a guaranteed income for life.

If you've just retired and are deciding how to invest your retirement savings, you can invest in a standalone life annuity if you are leaving a retirement fund or voluntarily purchasing one from personal savings. If you're already retired and you're invested in a living annuity, you can transfer your remaining capital into a standalone life annuity. Risk averse investors may consider this course of action but should be mindful of crystalising recent market losses.

If you prefer the relative flexibility of a living annuity and are willing to take on a little risk while still ensuring your essential expenses are covered, you can invest in a blended living annuity. This combines a component that is guaranteed for life and a flexible component, to help maintain a sustainable drawdown without eating into retirement capital. A blended living annuity combines many of the benefits of a life and a living annuity.

"Blended living annuities allow you to decide how much of your living annuity portfolio should be allocated to the guaranteed component, and how much remains invested in the market," Moore says. "The latter is used to generate growth in your overall portfolio, while resting easy that essential expenses are covered by the guaranteed component no matter what happens to investment markets."

ENDS

Article by retirement income specialist, Just