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When I'm Sixty-Four

Negotiating your retirement journey during Covid-19

When you hit retirement age, no one expects you to be your own doctor, mechanic or accountant. So why do so many of us assume that becoming a retiree automatically qualifies us to make the best decisions about the management of our retirement income? So asked Just CEO Deane Moore during a recent COVID-19 webinar hosted by 50plus Skills.

"Managing an optimal investment portfolio that delivers a sustainable income and protects against inflation, for life, is no mean feat," says Moore, "especially when subject to the constraints faced by today's retirees." While some pensioners may not be in formal employment, many are unable to reduce consumption due to basic needs. In common with most South Africans, resources in retirement may be limited, while tolerance for market risk is low.

In support of these constraints, Lynda Smith, CEO of 50plus Skills, identified three macro trends that are impacting retirees in different ways; namely longevity, technology and COVID-19. "Studies show we are living 10 years longer than our parents' generation and double that of our grandparents. The arrival of COVID-19 and rapid advancement of technology has forced many people of retiring age to shift into a much higher gear at a much faster pace than expected," she said.

All things considered, how can retirees ensure they have sufficient retirement funds to see them through their golden years?

While the COVID-19 crisis initially provoked anxiety, Moore reaffirmed that a retiree's approach to retirement should remain the same, regardless of market conditions. When planning for retirement, he urged participants to think about their retirement savings in two parts – needs and wants. He then identified three sensible steps to follow in order to best manage and protect retirement income.

Step 1: Draw up a budget

Spend time detailing your needs (things like groceries, housing, rent, utilities, medical insurance, future frail care and transport) and your wants (travel, shopping, dining out, hobbies etc.). If you can afford it, allocate a percentage of your 'wants' savings to leave a capital legacy for your spouse and/or dependents.

Step 2: Choose an appropriate retirement product for each pot

To cover your needs, a life annuity offers peace of mind by providing a guaranteed monthly income for life that will never decrease. You are also able to set a legacy benefit that pays a chosen income percentage to a nominated spouse and/or dependent in the event of you passing away. Different life annuity options offer varying levels of protection against inflation, including with-profit annuities, inflation-linked annuities and fixed-escalation annuities.

To cover your wants, you may consider choosing your investments and annual drawdown in a living annuity. Carefully managed, living annuities allow flexibility and choice. If you can draw less than 4% per annum from this type of vehicle, you should be able to sustain your income for life and perhaps leave further capital for beneficiaries. However, if you have to draw more than this, you must ensure that your needs are met by the life annuity, or else you may run out of money and become financially dependent of your loved ones in your final years.

A blended annuity is a new product that combines a life annuity and living annuity in one place. Not only does it provide the certainty of a life annuity, it also gives you the flexibility of a living annuity and allows you to 'top up' the life annuity within the living annuity down the line, should your needs increase.

Step 3: Seek professional advice

Research states that roughly 95% of South Africans reach retirement without sufficient income to sustain their lifestyles. So, just as you would not expect to treat your own medical ailments at 60, it makes sense to seek the advice of a qualified financial adviser to help you understand your options within your individual context. They will consider how your retirement savings can best be used to meet your financial needs and offer advice in setting an investment strategy that makes sense in the context of your aspirations.

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