Retirement in the time of COVID-19

The global pandemic has highlighted the increased risk of death the elderly face if they contract COVID-19.

Fortunately, the majority who contract the virus will survive. However, they will face another wholly unpalatable risk – the risk of not having a sustainable income for life in an environment where investment markets have crashed, and retirement savings have been significantly reduced.

Since the beginning of January, the JSE All Share Index is down by 25% and according to retirement income specialists Just, living annuity pensioners who maintain their income in Rand terms are now drawing roughly 1% more from their assets and consuming capital that won't be there when markets recover.

"If current market conditions persist for 12 months and markets then recover to pre-crash levels, pensioners are likely to run out of money four years earlier than under normal investment conditions," says Just CEO Deane Moore.

Market noise is currently focused on the polar opposites of "panic and sell-out" or "do nothing and wait". However, the decision on how to assess and mitigate risk in retirement is the same today as in any market conditions, and the actions required are also the same.

Moore says there are some sensible steps pensioners can take to protect their retirement income.

Think about retirement savings in two pots

The first pot should ensure you have enough sustainable income to cover your essential expenses for life; and the second pot is for discretionary spending or to leave as a legacy.

To determine how much you need in your first pot, calculate how much you spend on monthly essentials: food, accommodation, utilities, medical, transport and insurances. Your income needs to cover these monthly essentials, no matter how long you live or what happens to investment markets. It is not a good idea to take any risk with the funds in this pot.

The second pot of assets is where you can take some risk. Because this pot is used to fund discretionary expenses, you can afford to cut back on discretionary spending when markets fall or accept that the legacy will not be as big as it would have been in different market conditions.

Secure your income for life

The only way to secure the first pot with certainty is with a life annuity or by switching a portion of your assets in your living annuity to a lifetime income portfolio in your living annuity.

The good news is that the cost of purchasing a guaranteed income for life has gone down by almost as much as the fall in value of balanced portfolios. That means that a pensioner can secure broadly the same guaranteed income for life today as they were able to do before the market crash.

Make sure you are informed about the options, their pros and cons, and how much it will cost to get peace of mind. If you don't have enough to achieve this, it's important to redo your budget.

For those who believe markets will recover, there are options that combine a guaranteed income for life with increases that are linked to a balanced portfolio. These are available as lifetime income portfolios in some living annuities, or as with-profit life annuities.

Those who do not believe investment markets will recover significantly in their lifetime, might wish to consider a full switch to a life annuity. This would require potentially crystalising investment losses. Inflation-linked annuities increase each year with CPI. Fixed escalation annuities increase by a fixed amount each year – this may be cold comfort if inflation increases to a higher amount in future years.

ENDS

ABOUT JUST

Just believes everyone deserves a just and secure retirement.

Just offers guaranteed lifetime income solutions that provide retirees with financial certainty and protection from outliving their assets. We partner with best-of-breed asset managers and administrators to provide, collectively, an enhanced value proposition and client experience to meet the different needs of South African retirees.

Just Retirement Life (South Africa) Limited is a registered life insurance company, regulated by the Prudential Authority of the South African Reserve Bank and the Financial Sector Conduct Authority as an authorised financial services provider (FSP no. 46423) and is a wholly owned subsidiary of Just Group Plc, one of the UK's leading providers of retirement financial solutions.

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