

How to live long and prosper

Sherwin Govender, Business Development Manager at Glacier, outlined some of the challenges retirees face when planning their retirement income and how a blended solution can significantly change the outcomes.

A bleak picture

Only 6% of South Africans can retire in comfort and enjoy a similar lifestyle to the one they had before retirement. Most retirees draw an income from a living annuity. The worrying trend is that 59,000 living annuity retirees saw their income halve between 2011 and 2018. In a survey conducted by Sanlam Employee Benefits, the following was discovered:

- 85% stated that certainty about their retirement income was most important to them
- 53% were supporting adult dependants
- 33% still had debt.

In the last five years, the JSE All Share has not been able to keep up with inflation, and as a result, retirees have the added challenge of “sequence risk” to contend with. This is the risk of market conditions being poor in the early stages of retirement. Negative market returns in the first few years of retirement coupled with high income drawdowns will lead to living annuity retirees running out of capital later in their lives.

A 65-year old married couple today has a 50% chance of living well beyond the age of 90, and a 25% chance of celebrating their 100th birthday. This could mean that your retirement could be longer than your working life. This results in “longevity risk” which is the risk that you outlive your retirement savings.

Statistics show that the vast majority of retirees invest all their retirement savings into Investment Linked Living Annuities.

When it comes to living annuities, there are negatives and positives.

A glance at the pros and cons of living annuities

Pros

Cons

There is the possibility to leave a legacy.	There are no guarantees on capital protection or income.
It is flexible in terms of income needs (the income level can be changed on an annual basis).	Income levels need to be balanced against the longevity of the capital.
It is flexible in terms of investment choice.	The individual has to deal with managing the investment markets – this is cause for stress in the life of a retiree.
The income benefit starts off adequately. Starting income can be selected to match lifestyle needs and wants.	It is possible for the capital to be depleted, leaving the client dependent on a state pension.

Living annuities result in financial intermediaries performing a balancing act for their clients, especially in cases where clients want a high income, flexibility and the ability to leave a legacy. The fact is that drawdowns in excess of 4.5% are going to eat into the capital, meaning that money can be depleted over the long term. Bear in mind, that the average income drawdown from a living annuity equates to 6.64% according to ASISA (Association for Savings and Investment South Africa).

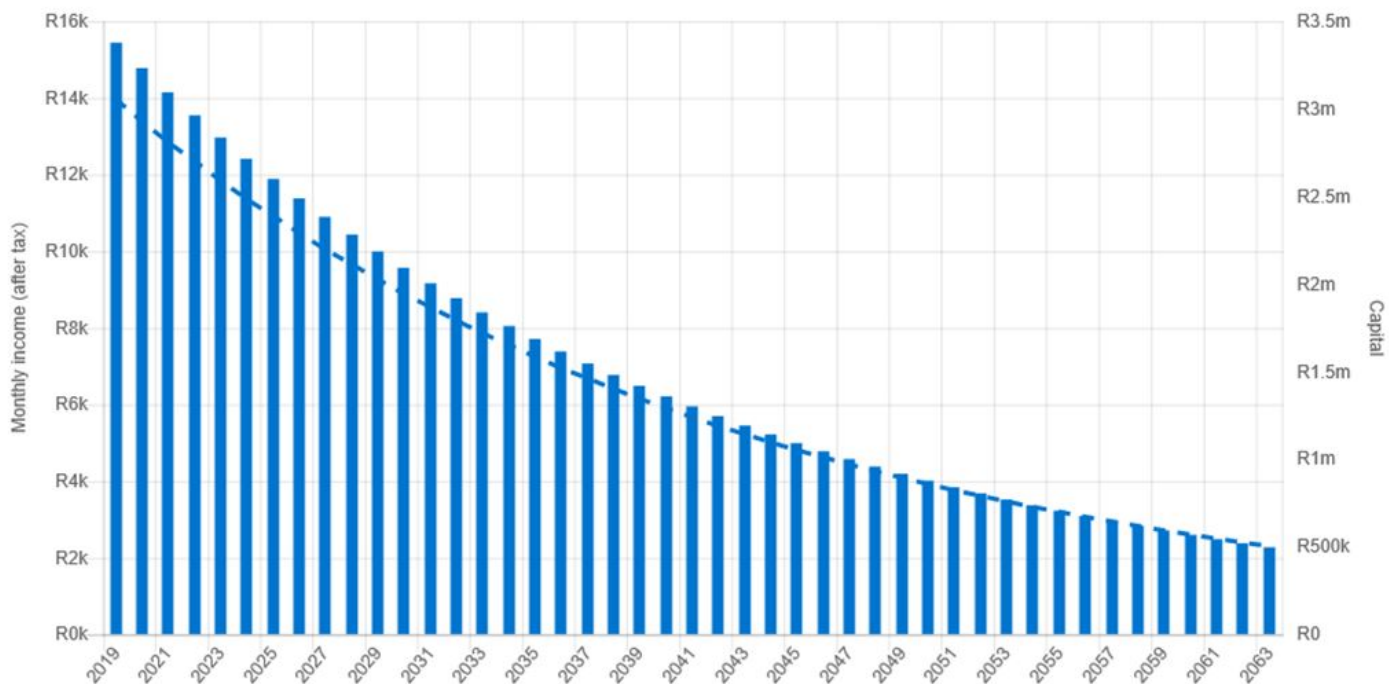
Blended solutions for the best outcomes

Guaranteed life annuities mitigate longevity and market risk. However, legacy benefits from these types of products are limited. The ones that do provide death benefits come at the cost of monthly income. The most commonly used guaranteed annuity is the “level annuity” which does not provide for inflation. Inflation-linked annuities are better in the long term but the starting income is lower when compared with a level annuity.

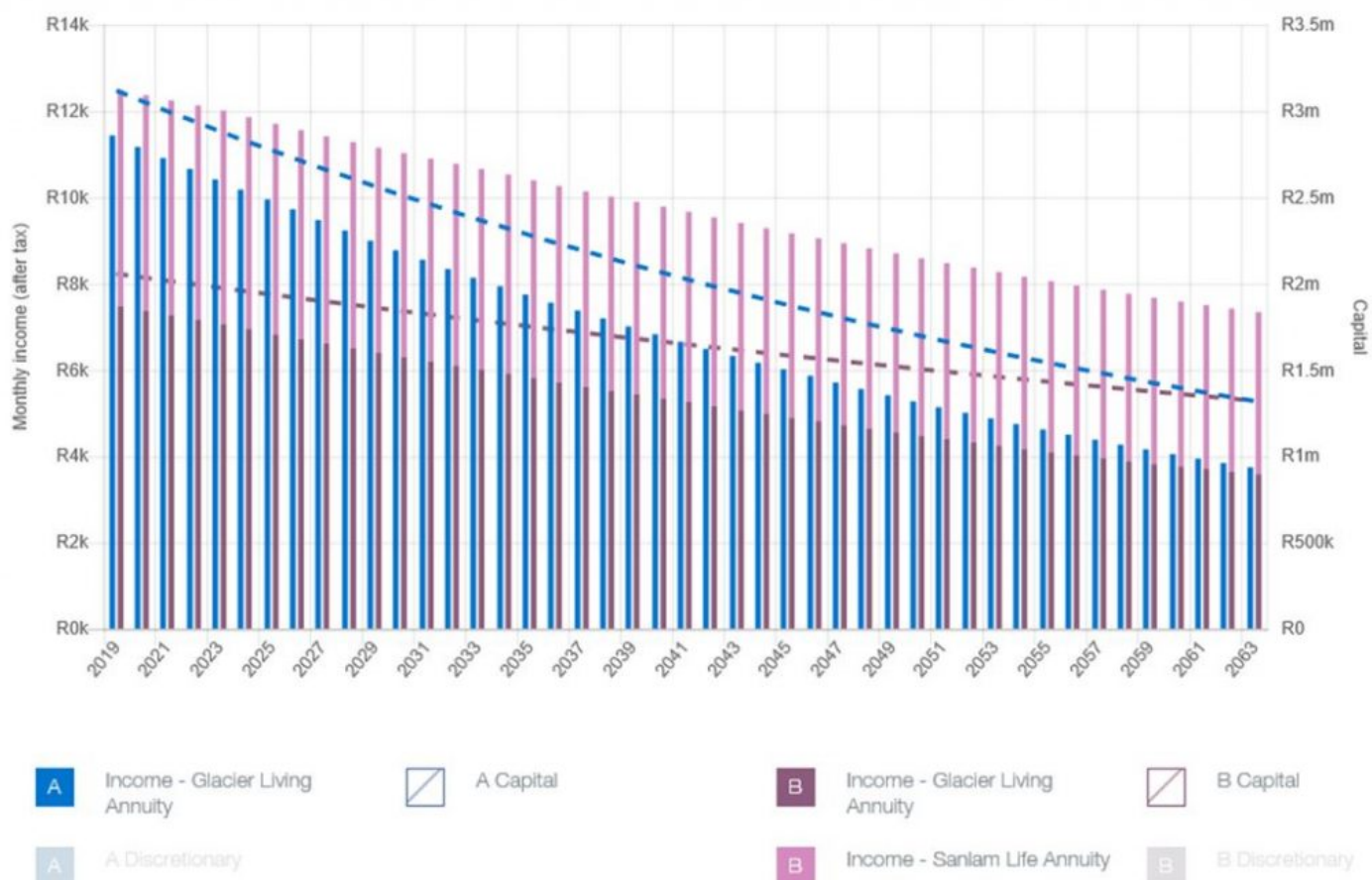
So, what’s the best course of action? In simple terms, using the benefits of both products – giving retirees the ‘best of both worlds’.

Numbers don’t lie

Using the Glacier Retirement Income Tool, and comparing two scenarios, a solid case for combinations is evident below:



In our example, we look at the living annuity of a man retired at 59 with R3,000,000 and taking an income drawdown of 7%. A moderate investment profile is assumed here. The graph is in real terms with inflation taken into account.



Let's consider the same client now using one-third in a 5% escalating guaranteed annuity and two-

thirds in a living annuity. See the rand income comparison of the two scenarios (also in real terms) in the picture below.



It's clear from the above that the client will be better off by combining a living and a life annuity.

The calculations were performed using the Glacier Retirement Income Planner, a tool designed by Glacier for intermediaries in their advice process. The graphs are for illustration purposes only. Guarantee rates will vary and personal circumstances need to be taken into account. Therefore, you must consult a financial planner.

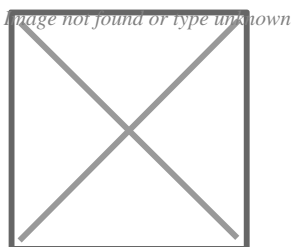
Glacier Financial Solutions (Pty) Ltd and Sanlam Life Insurance Ltd are licensed financial services providers.

Any information contained in this article as well as any opinions expressed and information provided, shall not be construed as advice as contemplated in the Financial Advisory and Intermediary Services Act 37 of 2002. Neither Sanlam nor any of its subsidiaries accordingly accepts any liability whatsoever for any direct, indirect or consequential loss arising from the use of this document or its contents.

Sherwin Govender

Sherwin has been a business development manager at Glacier since 2016, when he relocated to Cape Town from Kwa-Zulu Natal, where he had joined Glacier in 2011. He is responsible for developing and maintaining an investment intermediary portfolio of Sanlam tied agents and independent planners. This involves growing relationships with intermediaries through his support with technical expertise and planning. His career in financial services spans over 15 years, having fulfilled roles at Old Mutual Wealth, Nedbank Financial Planning and Alexander Forbes. Sherwin holds the following qualifications:

- Bachelor of Business Science in Finance and Economics, University of Kwa-Zulu Natal, 2004
- Postgraduate Diploma in Financial Planning, University of Free State, 2007
- Senior Management Development Programme, University of Stellenbosch, 2015
- MBA, University of Stellenbosch, 2021
- He is a Certified Financial Planner®



This document is intended for use by clients, alongside their financial intermediaries. The information in this document is provided for information purposes only and should not be construed as the rendering of advice to clients. Although we have taken reasonable steps to ensure the accuracy of the information, neither Sanlam nor any of its subsidiaries accept any liability whatsoever for any direct, indirect or consequential loss arising from the use of, or reliance in any manner on the information provided in this document. For professional advice, please speak to your financial intermediary.

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group

Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07

Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com |*Reg No 2002/030939/07

Licensed Discretionary Financial Services Provider, acting as Juristic Representative under the Glacier Financial Solutions FSP 770
Glacier International is a division of Sanlam Life Insurance Limited

Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440

Reg No 1998/021121/06 | Licensed Financial Services Provider