Managing retirement income streams

Speaking at the recent Glacier IdeasLab 2020 webinar, Business Development Manager Rainier van der Nest expanded on what was presented the previous year. "Last year we spoke about the shift from a solution focus to an emphasis on income stream management, as well as how a combination of different solutions could help achieve this, and also strengthen the adviser's value proposition," he said.

The reality of retirement

Your retirement income is only as sustainable as the income purchasing power of your retirement capital, and there is no solution – or even cheaper fees – that will solve the problem if the investor hasn't saved enough. These were some of the points raised and discussed at last year's event.

Since then, Glacier has relaunched the FlexiGuarantee Life Annuity - underwritten by Sanlam Life - we've seen an increase in the take-up of combination solutions and we've even seen similar events play out in the competitor environment.

"As the industry changes, so too does the relevant advice," said Rainier, "and with the shift to combination solutions we've seen an increase in various questions around these solutions and how best to use them."

Unpacking some of these questions

Rainier posed some of these questions to Business Development Manager Rocco Carr, and this is what he had to say.

Is a capital retention plan the option for all clients?

"These solutions are typically used to leave income to a spouse. Over the past six months (since the downgrade and since bond yields have spiked), we've seen many investors moving from a living annuity to these solutions. This is not a bad thing, however, they're mostly all taking a level income.

"A capital retention plan definitely has its place, but it shouldn't be used to get the investor out of a difficult situation, or to get a better income. Switching to this solution is fine if the investor has a short life expectancy but it won't be the best solution if the client lives for, say, another twenty years. A level income, as well as the lump sum pay out at the end, will be eroded by inflation. As a result, the purchasing power of the income and capital might be insufficient for needs at that stage.

"Once again, people need to understand what the long-term effect is of the level of income taken in "year one". The purpose of income stream management is to ensure that the money lasts as long as possible," said Rocco.

Should one purchase a living annuity now and convert to a guaranteed option later? Or start with the combined approach?

"Before the advent of COVID-19, I would have said that if you don't need a guarantee now, rather wait. But currently, with higher rates, I would opt for a portion in a guaranteed option now, but I would still place a portion in a living annuity to provide for some flexibility," said Rocco.

Rainier added that the role of the financial adviser never stops. "If the client has multiple living annuities, they can stagger their purchase of guaranteed options, thus buying into higher rates," he said.

Is it still a good time to include a with-profit annuity, or would you include this later?

According to Rocco, there is definitely a place for with-profit annuities. "However, most of the time you buy into a single fund for life," he said, "whereas a living annuity gives you a wide fund choice.

"I wouldn't put money into a with-profit annuity now with guaranteed rates as high as they are. It's important to look at what's happening in the macroenvironment when you purchase," said Rocco.

"There's no one-size-fits-all solution," added Rainier, "as the selection of solutions is driven both by individual needs and the macroeconomic environment."

Rocco emphasised that Glacier can offer all of these options – living-, life-, and with-profit annuities, as well as the option to combine different solutions.

"Choose a level annuity if you have a short life expectancy with high medical bills," he said, "as level annuities offer a higher starting income. But if not, then opt for an increasing income. You'll start off on a lower income compared to the level annuity, but with annual increases after a few years, your income will surpass that of the level annuity."

Should I always include a living annuity? Why can't I just put 100% of my money into a guaranteed annuity?

According to Rocco, even if you have a high need for security and guaranteed income, it is still prudent to put at least 30% of your funds into a living annuity. "For example, if you get diagnosed with a dread disease ten years down the line – a living annuity gives you the option to increase your income to pay for that. You can almost see that 30% as a type of emergency fund. A guaranteed or life annuity doesn't give you that option. Also, a guaranteed annuity may give you, e.g. a 6% annual increase, but remember that your personal inflation level may be higher than that.

"We're selling future income stream management, not income today or income in year one. It's really important that the client understands that," he said.

The discussion further emphasised the need for ongoing financial advice throughout retirement.

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