How to help your living annuity withstand market uncertainty and other risks

How can you make retirement solutions like a living annuity withstand market uncertainty and other risks? By harnessing income-focused wrap funds and taking an asymmetrical return approach to constructing your portfolio. Glacier Invest's experts explain, here.

The sad truth is that not as many of us are as prepared for retirement as we'd like to be. Add in things out of our control, like market uncertainty and increased healthcare needs, and even more pressure can be placed upon the longevity of the money we've saved for our retirement.

A survey conducted by Brand Atlas in 2019 highlighted that:

- A very small number of South Africans get it right to save enough to retire comfortably.
- More than half of South African retirees can't make ends meet.
- About a third of retirees are dependent on financial help from the government.
- A third don't have enough funds to cover medical expenses.
- A third are still in debt after they stop working.
- More than half still have adult dependants to support.

Sources: Sanlam Benchmark Symposium, 2010; Retirement Reality Report 2019; Brand Atlas, September 2019.

So how do you ensure that the money you've worked so hard to save lasts for the length of your retirement?

Let's start with a plain old living annuity

Living annuities offer a lot of pros for your retirement planning:

- They can protect the purchasing power of your income. By exposing the source of your income to market returns, your income can keep up with, or beat, inflation.
- You can change your income level (within legal limits) every year during your retirement, if you need to.
- You can choose your underlying investments to match the level of risk that you're

comfortable with.
- You can leave the remainder of the value of the underlying investment portfolio to your beneficiaries when you pass away.

But there are also some cons:

Living annuities aren't guaranteed for life. The number of years your living annuity will last depends on the performance of its underlying investments, how much income you draw during your retirement, and how long you live for.

There are therefore some risks associated with living annuities:

- There's an investment risk. The investment returns from your underlying investment portfolio may be worse than expected, reducing your capital, and therefore the amount of income you have during retirement.
- There's also a sequence risk. This is the risk that you retire at a time of market downturn, making your retirement capital vulnerable to the impact of this. Essentially, this can mean that you have to invest your retirement savings at a time of poor market returns, which will reduce your overall capital and income you can draw on in your retirement.
- And there is longevity risk: the risk that you live longer than you'd planned for, which could mean that you run out of income during your retirement.

How to protect against these risks in your retirement planning

Glacier believes that a traditional approach to portfolio construction is not enough to protect you from these risks. To protect you from running out of money during your retirement, your investments should be managed with a focus on preserving and growing capital, and reducing the effects of market volatility. So, how do we do this?

What is an 'asymmetrical return approach' to portfolio construction and management, and how can it benefit your living annuity?

An asymmetrical return approach aims to boost, support or protect your retirement capital and income so that you can grow your wealth when markets are flourishing, and protect it when markets are struggling.

We achieve this by using contemporary portfolio-construction tools to ensure an asymmetrical distribution of returns: hedge funds and other alternative assets are used as 'return boosters' because they behave unlike the markets and so can protect your investment portfolios from unexpected market shocks (like COVID-19).

In addition, smoothing techniques are used to reduce the effect of market volatility and create more income stability by holding back excess returns in good years and releasing them back to investors in years when markets preform poorly. This way, you have a more stable return experience on a year-by-year basis.

Our specially designed model portfolios, called the Glacier Invest Real Income Solutions, are actively managed to target specific investment returns. They come in five different variants, each one suitable for a different type of investor. Your financial adviser will be able to give guidance on which one will be most suitable for you.

Glacier Invest Real Income Solutions are actively managed model portfolios. What are model portfolios?

A model portfolio, or wrap fund, consists of a combination of collective investment schemes (also known as unit trusts), managed to achieve a specific investment goal. The mandate of a model portfolio aligns with a specific investor risk profile – in other words, the amount of risk you're willing to take on determines which model portfolio you would choose to invest in, with help from your financial adviser.

What are the benefits of being in a model portfolio or wrap fund?

- Skilled professionals manage the portfolios. Only investment managers (including appropriately licenced financial advisers) approved by the FSCA (Financial Sector Conduct Authority) may manage these portfolios.
- Risk-profiling. These professionals actively manage the portfolios in accordance with clearly articulated and documented risk profiles.
- Time is spent trying to find the most efficient portfolio at the level of risk you are willing to accept. Meticulous fund manager and macro-economic research is used to construct an optimal investment portfolio for every risk profile.
- Transparency. These portfolios have pre-defined benchmarks and objectives, and because investors have direct ownership of units in the underlying investment funds, all the collective investment funds in which the wrap fund is invested are indicated on the investor's statement.
- Value for money. Investors seem to get far more value in a model portfolio or wrap fund than a standard investment portfolio. For an average additional administration fee of 0.25%, investors are assured of an actively managed, thoroughly researched investment.

You can learn more about Glacier Invest's Real Income Solutions, here.

Speak to your financial adviser about incorporating these into your living annuity, as part of your retirement planning.

Please consult with a financial adviser before you take any action regarding your savings and investments.

Glacier Invest is the discretionary fund management offering of Glacier Financial Solutions (Pty) Ltd ("Glacier"). Glacier has partnered with Sanlam Multi-Manager International (Pty) Ltd, part of the Sanlam Investments Group, to optimise the investment management responsibilities.

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