Decode the retirement planning jargon!

Making the right retirement planning choices begins with understanding the solutions available to you, and the jargon. Here we decode common retirement planning jargon to empower you in conversations with your financial adviser.

Sequence risk

This is the risk of timing your retirement badly. Your retirement capital is most vulnerable to the impact of market drops just before or just after retirement. At these stages market volatility poses a serious risk to your investment. If the market takes a downturn before your retirement, and there isn't enough time for your investment to recover before you reinvest your retirement savings into a post-retirement solution, you lock in the capital loss as a result of that market drop.

In the long term, this reduces the sustainability of the investment, as there is less capital left to grow and from which to draw for the remainder of your retirement income.

Longevity risk

"When [investing in a living annuity] it's pivotal that the capital lasts at least as long as the remaining lifespan," says Paul Wilson, CIO of Glacier Invest. "How long that time frame would need to be is the million-dollar question, and this is what is known as longevity risk."

Managing for the longevity risk of your retirement capital is why it's important to speak to a financial adviser to ensure a sustainable retirement income level that will last.

Investment risk

You're never guaranteed a positive return on the investments in your underlying portfolio because of market exposure, which means there's an element of risk to your capital and your income. This is known as investment risk.

Inflation risk

When your level of income can't keep up with inflation, your income loses purchasing power. Ask your financial adviser about Glacier products designed to match and even beat inflation to lower your portfolio's inflation risk.

Life annuity

The advantage of a product like this is the guarantee of having an income for life. You can select between a single or joint life annuity. Unlike with a living annuity, your capital in a life annuity cannot be left to beneficiaries when you pass away, and you can't adjust your income. However, when starting your life annuity, you can opt to have the income increased every year by a certain percentage, or at the inflation rate. In some instances, you may add a life cover policy to provide a specified amount to your loved ones when you pass away, thereby providing for future generations.

If you opt for a single life annuity, you have the choice to take it with or without a specific payment term:

- Without a payment term, payments stop when you die, and the plan ends.
- With a payment term, you select a payment term (between five and 20 years) in which Sanlam guarantees an income will be paid to you. If you die during this period, your elected beneficiaries could be eligible for these payments until the term is over. However, if you pass away after the term, all income payments will stop and the plan will then end.

Joint life annuity

A joint life annuity provides an income to the first life insured, and to the second life insured after the death of the first life insured. "A risk of the joint life annuity is that, if both spouses should pass away in year one without a guaranteed payment term, there's nothing left for the children or other selected beneficiaries to inherit," says Rocco Carr, Business Development Manager at Glacier. It is, however, possible to select a payment term between 5 and 20 years, and should both lives pass away during the term, your elected beneficiaries could be eligible until the term is over.

Living Annuity

A living annuity is a product that's invested in market-linked underlying investments – allowing you to benefit from the returns of an investment portfolio with market exposure.

At Glacier, you can invest with a minimum lump sum of R100 000, and have the freedom to move your solution, and change the underlying investments. You can also choose your income drawdown rate, subject to law, bearing in mind that you also carry the longevity risk of the solution. An advantage of this solution is that, if you pass away, the remaining underlying fund value will be available to your chosen beneficiaries, says Linda Blom, Business Development Manager at Glacier.

If you have an existing living annuity, you can convert it in full to a life annuity at any stage later on, says Rocco. "The older you are, therefore the later you buy a life annuity, the more attractive the rate becomes, which can play in your favour."

Income stream management

Together with your financial adviser, you can structure your retirement income plan according to your needs. This conversation starts a process of income stream management, whereby your financial adviser can advise you on product options for optimal income stream management to prolong your retirement income strategy as much as possible.

FlexiGuarantee Life Annuity

"This is a combination of a living annuity and a life annuity," says Linda. The 'Flexi' in the product name refers to the more flexible part of the product, which is the living annuity component, while 'Guarantee' refers to the guaranteed income from the life annuity component. This solution allows a possible answer to the risks highlighted when already owning only a living annuity.

As an investor, you have the choice to split the investment however you like between the living annuity and life annuity components. "As long as the split you choose complies with the minimum required investment amount for each component, you have that freedom," says Linda.

The limitation of this is that you can't transfer the living annuity component to another provider.

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

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