

Retirement income planning calls for balanced, blended solutions

At the recent Keynote 2021, Sherwin Govender, business development manager at Glacier recently outlined some of the challenges retirees face when planning their retirement income and how a blended solution can change the outcomes positively.

A bleak picture

Only 6% of South Africans can retire in comfort and enjoy a similar lifestyle to the one they had before retirement. Further investigation reveals that:

- The number one fear of all retirees is that they will outlive their money;
- 67% of retirees have adult dependants;
- 51% of retirees cannot afford to make ends meet;
- One third of retirees cannot afford medical care;
- 67% have no, or insufficient, retirement provision; however
- 69% expect to retire with the same standard of living.

These statistics show that the majority of those that are retiring and close to retirement are likely to have insufficient retirement savings and much higher income needs. It also highlights the fact that client expectations are very different from their actual planning.

The risks in retirement

Sherwin further pointed to the risks that warrant serious consideration when designing a post-retirement income solution:

1. *Sequence risk*: the risk of retiring at a time when the markets are performing badly. Sherwin uses the analogy of a person retiring on 1 April 2020, in the middle of the COVID market crash. That person would need substantially higher market returns to recover losses suffered because they will be taking an income.
2. *Long life (longevity) risk*: the risk of living longer than expected and therefore running out of money during your lifetime.

3. *Dependant risk*: the risk of your dependants not having resources upon your death.
4. *Liquidity risk*: the risk of not having enough available capital to meet monthly expenses.
5. *Investment risk*: the risk of poor returns after retirement that reduce your ability to withdraw income to meet your needs.
6. *Inflation risk*: the risk of a decline in purchasing power and not being able to meet monthly expenses.

The current environment in the market shows that sequence risk, longevity risk, dependant risk, investment risk and operational risk are much more prevalent than in the past.

The traditional planning solution is to use 100% of retirement capital in a Living Annuity (ILLA). ILLAs have historically allowed clients income flexibility, comprehensive investment options and the chance to leave a legacy.

However, these benefits are reliant on strong investment returns which have not been the case in the last five years. Using a traditional guaranteed life annuity can reduce sequence risk, market risk and longevity risk but the structure doesn't always fare efficiently in good investment market conditions.

You have two planning solutions that vary in effectiveness during different conditions. The logical step is to diversify across the solutions for a more optimal plan.

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

The Glacier Investment-Linked Living Annuity is underwritten by Sanlam Life Insurance Ltd.

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