Ensuring your clients’ retirement income lasts

Speaking at the Keynote 2021 webinar, Waldette Stoffberg, business development manager at Glacier by Sanlam, outlined the importance of retirement income stream management, in other words ensuring that the best possible combination of solutions is chosen so that your clients can live their retirement with confidence and dignity.

Diversification remains key

Clients have specific retirement goals that they need to achieve. Traditionally, people chose between a conventional life annuity or a living annuity, with the living annuity proving very popular in recent years. However, markets have behaved very differently over the last five years. This means that those who are relying on their investments to provide them with an income, need to be smart about the income solutions they choose as there is no longer one solution that will cater adequately to all retirement income needs.

Some clients may need more flexibility to change their income or may want to leave a legacy. For others, security may be their top priority. Others still, may not fall neatly into either of these two categories – their needs may overlap. This is where diversifying between these solutions can provide a better outcome for them.

Let’s look at two client scenarios:

Scenario 1

Client A is 59 years old. He’s just retired, is single, and has two adult children who are financially independent. He has R3m to invest for his retirement income.

He requires 7% income (translating into R17 500 per month) and this needs to grow at 5% per annum. Importantly, he would like to leave a legacy for his children.

What solution could he consider?

He could place 50% into a living annuity. This would provide a legacy (if there is money remaining after his death). The other 50% could be placed in a single life annuity to provide for a growing and sustainable income.

By investing in a living annuity only, Client A could grow his income until about the age 72 or 73. At that point his income will reach a maximum and will start to reduce thereafter.

Combining two solutions, as outlined above, will provide a more sustainable outcome. If he combines these two solutions, at the age of 80 he will receive R15 800 per month more, than he would have had he invested 100% in a living annuity. The legacy he leaves may not be as much as with a 100% living annuity, but far more important is that Client A will live out his days in a self-sufficient manner.

Scenario 2

A couple, aged 65 and 61, has R1.8m retirement capital to invest – this is the only money they have to fund their retirement. They require an income starting at R10 000 per month and need this to grow at 5% a year.

The couple wants income flexibility. They're cautious investors and are uncomfortable with volatility.

What solution could they consider?

They could invest 30% of the amount in a living annuity. This will give them the flexibility to change their income annually. The remaining 70% could be placed in a joint life annuity – this will provide them with a sustainable growing income.

Again, if we look at outcomes, we see the combination (outlined above) gives them a more sustainable solution. By investing 100% in a living annuity only, the capital will start depleting from age 70. From an income perspective: on the eldest reaching the age of 80, the couple will be receiving R1 300 more per month with the combined solution than they would have, had they invested 100% in a living annuity.

Conclusion

Diversifying your retirement income stream is crucial. Advisers need to consider all available options, and how to harness the core competencies of each of these, in order to get the client to the best possible outcome.

Glacier has the solutions to assist you and your clients and we're here to support you with any queries you may have.

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