

# Liquidity risk in retirement

By Neal Sinclair, Business Development Manager at Glacier by Sanlam

*What is liquidity risk in retirement and how does this impact me and what can I do to mitigate this risk?*

Liquidity refers to how easily an investor can sell an asset, for example a house, shares or unit trusts (collective investments) for cash, which can then be used to meet either ongoing expenses or an emergency once-off expense. If the asset takes a significant amount of time to sell or the investor experiences a loss when selling, then this is referred to as liquidity risk.

Liquidity risk also needs to be carefully considered in retirement, and in this article I am going to explore how this could potentially be experienced in retirement.

Let's consider an example -

A client, Joe, has the following income streams and assets:

A life annuity which pays him R40 000 a month, a holiday house in Cape Town valued at R10 000 000, rental property in Johannesburg which generates R10 000 a month in income and a gold coin collection which Joe believes to be worth R4 000 000.

Joe recently fell and broke his leg and whilst the hospital expenses were covered by his medical aid and some expenses were covered by his medical savings account, Joe is going to need to raise an additional R3 000 per month for the next eight months to pay for his rehabilitation expenses.

Joe cannot approach the insurer for an additional R3 000 from his life annuity as he opted for a traditional life annuity at retirement. He also cannot adjust the rental amount he receives as the lease agreement is not up for renewal and the tenant may choose to vacate the property should the rent be increased by R3 000.

In this example Joe has assets that he can sell, however they are not very liquid assets as the house in Cape Town for example will take some time to sell and in addition, he may not want to sell the house just to cover R3 000 for eight months.

Joe then decides to sell some of his coin collection to cover the shortfall in income. He

approaches a coin dealer who makes him an offer for a portion of the coin collection. The offer made by the dealer is significantly lower than what Joe was expecting. He had anticipated receiving at least market price for the coins.

Because of his situation, Joe decided to sell the coins to cover the shortfall in income for the eight-month period.

What could Joe have done differently at retirement?

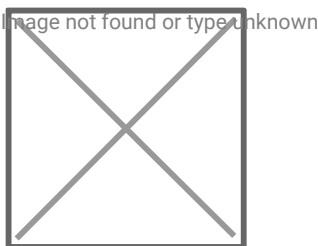
I firmly believe that a retirement income stream needs to consider the potential need for emergency and unforeseen expenses.

One strategy that Joe could have adopted was to split his retirement capital between three or four different solutions.

- Firstly, a traditional annuity to provide longevity protection and certainty for expenses such as medical aid premiums, food and property expenses.
- Thereafter, he could consider having two or three living annuities. This will allow him more flexibility into the future to transfer one of them to a life annuity, thereby guaranteeing a portion of his income.

With a portion of the one-third that Joe took in cash, he could have placed some funds in either a money market fund or a conservative unit trust to serve as his emergency fund.

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



## Neal Sinclair

Neal joined Glacier as a business development manager (BDM) in June 2011. In his current portfolio he is the custodian for broker services in the Johannesburg region. His career in financial services kicked off in 1997 when he joined Fedsure. He later moved to Momentum and then Sanlam. Neal holds an Advanced Certificate in Financial Planning (NQF Level 6).

**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](mailto:client.services@glacier.co.za) | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web [www.glacier.co.za](http://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](http://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](mailto: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