

Blending solutions to create an ideal outcome

As with any long-term relationship built over time, an intermediary should know as much as possible about their client's lifestyle, values and unique needs. This is key to designing a post-retirement portfolio that enables an investor to retire with confidence. So says Linda Blom, business development manager at Glacier by Sanlam. There really is no one-size-fits-all solution when it comes to pre- and post-retirement planning. She examines how the Sanlam Wealth Edge Endowment Plan, blended with other offerings can create a customised future for clients..

Getting to know your client – let's call him Mr Richie

Mr Richie is 65 and recently has retired. Here's what we know about him:

- He's single and has no-one who is financially dependent on him.
- He falls short on his post-retirement income based on the available capital from his employee retirement fund.
- He no longer needs a big house, so decided to sell his property.
- The proceeds from the sale of his house and the one-third retirement lump sum from his employee retirement fund, combined, amounts to R5 million.
- He needs the R5 million to provide a guaranteed income of R10 000 per month after tax, to top-up his income for fixed expenses.
- He also needs R200 000 of the R5 million to be accessible at all times. He has a frail parent and may need to cover unexpected or emergency medical expenses.

A solution tailor-made for Mr Richie

One solution for Mr Richie would be to invest in a Fixed Return with Income Plan. This would provide him with a guaranteed income, and he would get the original capital amount back after five years. However, he would not be able to choose a specific value of the income on this product. The income is calculated based on the capital amount provided and the rate for the week in which the money would be received.

Mr Richie only needs R10 000 guaranteed per month, which is also lower than what a Fixed Return with Income Plan would provide for the capital amount he has available. So, let's look at some other options.

A portion of the capital could be invested in a guaranteed income plan (commonly referred to as a term annuity) which would provide Mr Richie with a choice of a guaranteed income of R10 000 per month for between five and fifteen years, with no capital payable at the end of the chosen term.

Another popular alternative is to invest a portion of the capital in a voluntary life annuity, providing him with a guaranteed income for life with the choice of a guaranteed term of zero to 20 years. Both of these products qualify for the section 10A exemption which means that only the non-capital portion of the income is taxable, making both solutions tax-efficient.

Once a choice has been made regarding the most suitable way to provide for Mr Richie's top-up income, we must consider how to invest the remainder of the capital which potentially will grow back his original capital to more than the original R5 million.

Combinations pack an investment punch

Combination income solutions really do the heavy lifting in a portfolio, says Linda. The remainder of his money could be invested in a diversified investment portfolio, ensuring growth, legacy and longevity for Mr Richie's hard-earned savings. For example, if he invested a portion of the capital in a voluntary life annuity to provide the top-up income, he could invest R200 000 in a Cash Option, which provides liquidity at all times. The rest could then be invested in the Sanlam Wealth Edge Endowment Plan which offers:

- an upfront additional allocation of 8% after the deduction of the advice fee plus VAT;
- a Wealth Bonus which incentivises Mr Richie to stay invested after the initial five-year period;
- the option of the Glacier Solution Funds, which are managed according to Mr Richie's risk profile; and
- a unique unit guarantee that offers protection within the investment.

Knowing your client is half of your job

Truly knowing your client and understanding their needs is a large part of the job done in pre- and post-retirement income planning. By combining certain growth and income solutions, you could achieve a custom-made diversified investment portfolio and balance the need of longevity, legacy, income and flexibility.

All monetary values in this article are assumptions for illustrative purposes only. As markets fluctuate and every client is different, values, rates and incomes will vary.

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