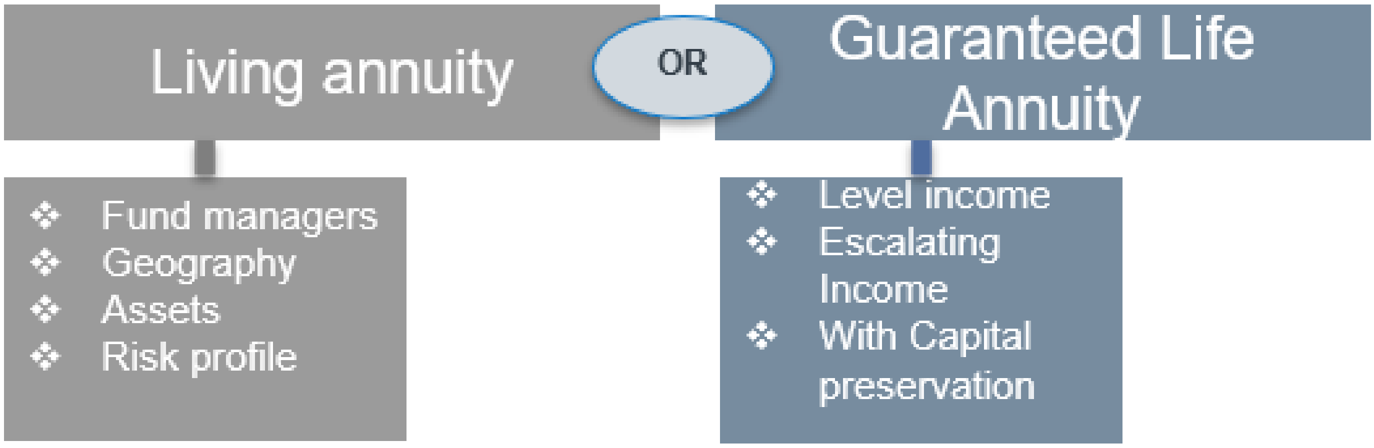
# Blending diverse, multi-layered solutions for the optimal retirement income outcome

By Rocco Carr, Business Development Manager at Glacier by Sanlam

Many people think that diversification in retirement is limited to the choices between guarantees and living annuities. If a living annuity is selected, the diversification among funds, geographical regions and asset classes is well-known. This boils down to presenting a quote or two at retirement, with a choice of one of the options presented. If a guarantee is considered, it is all about the rate, the income escalation and whether a capital guarantee should also be included. If a living annuity is considered, a lengthy proposal displaying the advantages of the product (inheritance and income flexibility) and the choice of funds within a specific risk model is presented to the client. At this level a client will normally be shown the types of assets and the split between local and offshore, within the limits of the risk the client is prepared to endure. During periods where markets struggle, guarantees are often favoured as clients prefer the safety – believing that markets will stay this way. Due to the uncertainty in markets, guaranteed rates are then often higher as bond yields will be elevated to compensate for the risk. This was evident after the COVID crash.

In contrast, during periods of strong market rallies, investors often assume that the good news will continue, and that the double-figure market returns will always be available. During such a stage, investors tend to focus more on living annuities. In addition, a financial adviser's own perception of the future often rubs off on the investor's choice between a living annuity and a guaranteed life annuity. This choice between the two options, however, can be labelled as the first level or layer of diversification.

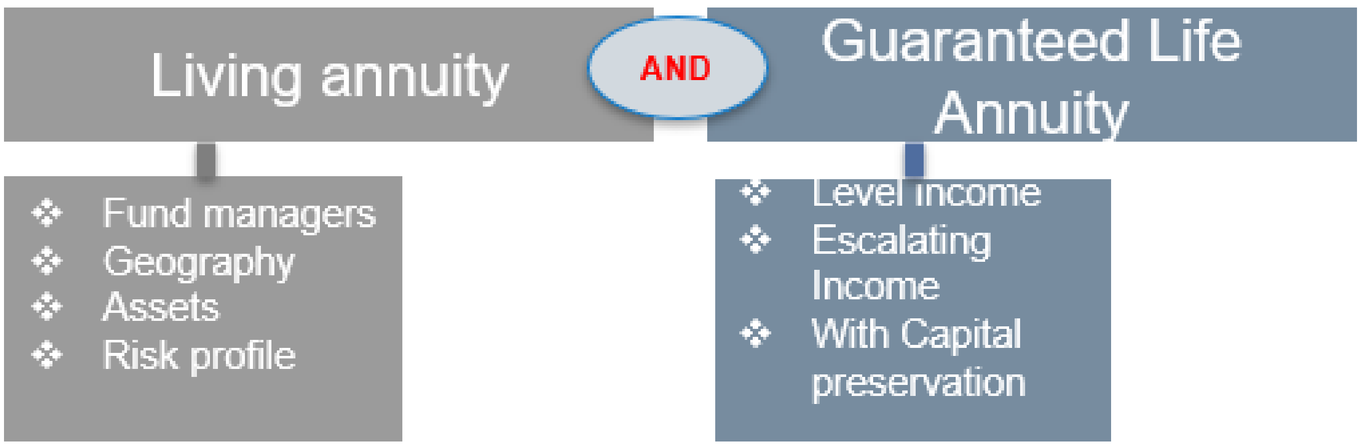
## FIRST LEVEL OF DIVERSIFICATION




Incorporating true diversification

This is a starting point but does not incorporate true diversification. Advisers who realise that current market conditions won't continue forever, are prepared to take the next step to diversify even further. They realise that by combining a living and a life annuity at retirement, they can offer the client the best of two worlds. The guaranteed portion protects the investor against the risk of longevity, while the living annuity component offers flexibility in income as well as the prospect of a legacy. This can be described as the second level of diversification, where components of each are blended into a solution. Unfortunately, many companies are not able to offer such a combination.

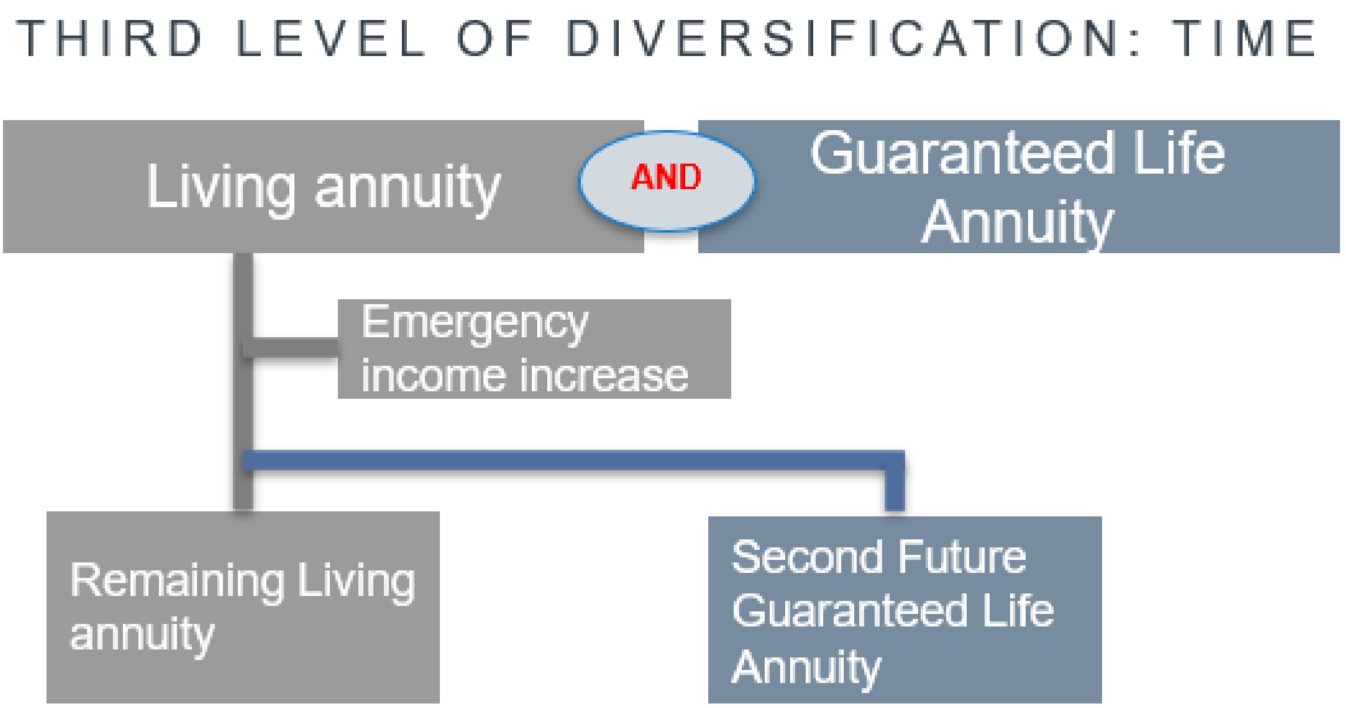
## SECOND LEVEL OF DIVERSIFICATION




Considering future income stream management

The third level goes beyond the normal notions of diversification and brings the concept of time into the equation. At this level the financial adviser realises that the future might hold unforeseen stumbling blocks and/or opportunities, which might not currently be real or expected. For this adviser, the management of their client's future income stream becomes paramount. Should a client run into a dire situation where extra income is urgently needed, such as a medical condition not fully covered by their medical aid, the flexibility of the living annuity income withdrawal might emerge as a solution. Since the income may be altered once a year, the client will then have the option to increase the income from the living annuity for a year or two to cover the extra expenses. Although this might not be an ideal solution, the flexibility can solve a serious problem for the client. The component in the living annuity therefore can double as an emergency fund for the future.

A second deferred opportunity that might arise is the purchase of a second life annuity somewhere in future. Such an adviser accepts that guaranteed rates in future, when a client is older, might present them with another bite at the guarantee apple, but at a far better rate than might currently be the reality. Instead of locking all guaranteed rates into a single event at retirement, the combination allows for diversification of entry points into a guaranteed environment. Some platforms offer the opportunity to split the remaining living annuity into another combination, which means the flexibility of a portion in a living annuity does not need to be fully discarded at that point. However, platforms that do offer this functionality are very limited, so an adviser should seriously consider which platform to work with when embarking on the third level of diversification.




Retirement diversification is far more than selecting the most appropriate option within the current set of facts pertaining to the client. True diversification at retirement should be more about how different retirement products can be blended to cover for immediate and possible future needs. True retirement diversification is therefore not only about fund choice or asset and geographical blend, but also about product combinations and diverse entry points along a future timeline. Such a multi-layered diversification model is the only way to effectively manage a client's future income stream.

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