Should you fix your **retirement income?**

BY BUHLE NDWENI

Most people take out retirement products with the hopes that their savings will provide sufficient monthly income once they retire, but turbulent financial markets and higher-than-planned-for inflation can wreak havoc with even the most diligent saver's retirement plans.

Recognising the need for consumers to have security in an uncertain economy, Liberty designed a retirement annuity and preservation fund that will guarantee investors' income after retirement.

Liberty's Agile product is deemed the first of its kind in South Africa, and offers flexibility based on the level of certainty a client wants concerning their retirement income. A percentage of savings can be allocated to the Exact Income Fund – which will provide guaranteed income during retirement – and Liberty's other investment funds, which operate like a traditional retirement annuity.

"Some people may want 100% in an Exact Income Fund because they want to secure everything. Someone else might prefer to retire with a living annuity since it allows them to choose cover and capital, which goes to their beneficiaries when they die, says Mark Lapedus, head of product development at Liberty Investments. Although living annuities are great from that point of view, if you live for very long, the risk is you'll do so without money, notes Lapedus.

MARKET PROTECTION

Older, risk-averse people who are closer to retirement are advised to commit more of their retirement savings into the Exact Income Fund, while younger investors seeking an aggressive growth portfolio should contribute less to this fund, Liberty says.

Mark Lapedus
Head of Product Development at Liberty Investments

The Agile product is designed to offer protection against markets deteriorating just before retirement, leaving investors with insufficient time to recover their financial position. "By securing income leading into retirement, you're provided with an element of certainty. No matter what happens to markets or interest rates, you're going to be okay and have enough money – that's the certainty the Exact Income Fund affords you," says Lapedus.

Certified Financial Planner at Brenthurst Wealth Management, Sonia du Plessis, says opting for a product that offers a fixed outcome in retirement depends on people's personal circumstances.

"It is wise to review the funds saved towards retirement on [an] annual basis. If investors select a product like this – where a certain outcome is guaranteed – they may assume they made sufficient provision and don't look at it at all, and just before actual retirement [realise] that it isn't enough," says du Plessis. "Retirement planning must be taken seriously; investors cannot simply assume or hope things will be fine or somehow 'just work out'."

Du Plessis says the most common mistakes investors make is not taking the effect inflation can have on their retirement income into account. "Inflation is much higher than the stated 3%-6% targeted by government or the Reserve Bank; especially for expenses like medical costs, medical aid contributions and food inflation," she says. ■

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GUARANTEED VS LIVING ANNUITIES

Du Plessis unpacks the pros and cons:

Sonia du Plessis
Financial Planner at Brenthurst Wealth Management

GUARANTEED ANNUITY

Benefits:

- Fixed income for life.

Drawbacks:

- Income will most likely not keep up with inflation.
- Depending on the product, no capital will be available for the investor's estate for a spouse or children after death.
- Once the decision is made to put money in a guaranteed annuity, the investor cannot change their mind and take capital out.

VS

LIVING ANNUITY:

Benefits:

- Income can be changed annually. "The individual can, for example, start off with low income and increase it as they become older. Income can keep up better with inflation. The investor can nominate beneficiaries: the capital will be part of the investor's estate for a spouse or children after death," she says.
- Once the investor has decided to put money in a living annuity, says Du Plessis, the investor can also decide to put the capital in a guaranteed annuity at a later stage.

Drawbacks:

- Market risk.
- The investor must be cautious about withdrawals; they must be reasonable as setting a high income from the investment can deplete capital, she says.