



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

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HOW COVID-19 CRASHED YOUR RETIREMENT

Investing and financial planning for any personal finance goals became a lot more challenging as the impact of Covid-19 swept through the world, causing intense volatility and a demanding investment environment. For most, sticking with their current strategy is the option of choice, while others have made some adjustments to portfolios. For those who planned to or must retire – due to, for instance, company policy – in 2020, the situation is rather different.

For them, the picture may seem pretty bleak right now following the recent (Covid-19 pandemic) market correction and the un-precedent period where retirement capital stagnated due to sluggish markets.

During the first quarter of this year the average [balanced fund](#), a typical choice for retirement annuity and pension fund allocations, declined by 14% and investors' allocation to more conservative mandates lost around 8%.

① **“Firstly, don’t lock in the losses.** “It is not a good idea to retire from all pre-retirement investments all at once this year, but rather stagger it over the next year or two, based on the income needed, to enable the investments to recover somewhat. Hopefully, what your advisor has done a year or so ago is advise you to rather go into more conservative portfolios and reduce local equity exposure to protect your capital leading up to retirement,” says advisor and CFP® Suzean Haumann.

② **Secondly, limit drawdowns** (the amount of income taken) early in your retirement as it can further hurt your already depressed retirement reserves. Also, cut back on non-essential spending to help maximize capital contributions to participate in recovering markets.

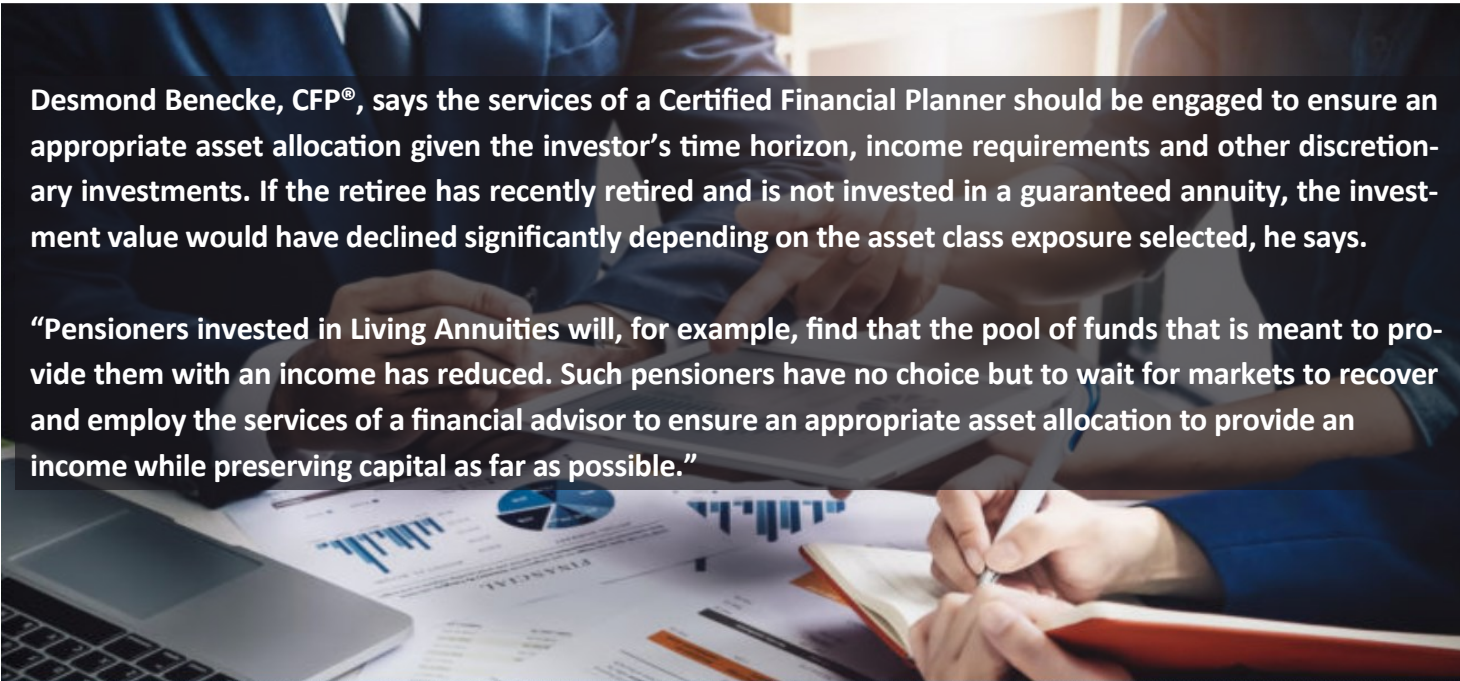
Mags Heystek, CFP®, stresses that analysing cash flow is an imperative. “Look at every cent that is left your bank account, to try and understand where your money is going, he says. “This will help you to reduce your expense because we are unfortunately in a no-growth environment. Now is the time to ensure that the income being withdrawn is at a sustainable level. (between 4-5% drawdown),” he adds.

Sonia du Plessis, CFP®, agrees on both points. **“If it is at all possible, try to give your pension capital a break for the next two years.** You can do this in two ways. 1) Try to delay going on pension for the next two years. Perhaps pursue renegotiation of your current employment or seek another opportunity. 2) If this is not possible then you will have to cut expenses and reduce the income that you are planning to draw. You will have to tighten the belt, and therefore must scrutinize your budget. Once you take a hard look at spending, it is often surprising that we can all survive on much less. Work MUCH smarter with your money, for example – cancel luxury expenses like satellite TV and look at alternative options with a lower subscription fee, for instance Netflix. Go through every single expense on your bank statement and see if it can be reduced. Little changes add up to make a big difference.”

- ③ The **third** point is if you gain access to the one-third of your savings that you may take as a lump sum at retirement, ensure that this is invested prudently. You may need this capital to supplement your retirement income or cover increasing medical expenses later on in life.

Also keep in mind that withdrawals, and any further capital growth or income distribution is taxable, so ensure you optimize your tax position by speaking with your financial advisor.

In addition, allocating retirement capital, or a portion thereof, to a living annuity or preservation fund or any other money market product, will for some add flexibility into retirement. It is important to engage with a financial advisor to design and manage a dynamic financial plan with clearly stated objectives, specifically for personal circumstances. These experts will know how to best position your portfolio for recovery, or when it may be a good time for you to consider converting to another product or fund, or add risk cover so that you remain secure and have a guaranteed income for life.



Desmond Benecke, CFP®, says the services of a Certified Financial Planner should be engaged to ensure an appropriate asset allocation given the investor’s time horizon, income requirements and other discretionary investments. If the retiree has recently retired and is not invested in a guaranteed annuity, the investment value would have declined significantly depending on the asset class exposure selected, he says.

“Pensioners invested in Living Annuities will, for example, find that the pool of funds that is meant to provide them with an income has reduced. Such pensioners have no choice but to wait for markets to recover and employ the services of a financial advisor to ensure an appropriate asset allocation to provide an income while preserving capital as far as possible.”

“The lesson learnt in recent times is that pensioners should not be obsessed with providing their heirs with a legacy after their deaths and invest their retirement savings in a guaranteed annuity where appropriate. Pensioners who do not have sufficient funds to withstand market fluctuations, should not purchase living annuities and rather purchase guaranteed annuities,” he adds.

Says Benecke: “**Fund members who have to retire now and cannot delay retirement would have seen their investment values decline.** Depending on the amount involved, and factors such as income required and life expectancy, such members who must draw an income now, should rather purchase a living annuity where income for two years is provided for in income funds, and the remaining funds invested in growth assets. This will allow time for markets to recover, at which time the funds could be invested in guaranteed annuities if appropriate.” If 2020 is your year of retirement, do navigate the challenges with the guidance of an experienced, qualified advisor. Read more about [retirement planning](#).

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