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NAVIGATE THESE 4 COMMON RETIREMENT RISKS

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The extreme market volatility and uncertainty of the past two years have been a wake-up call for investors who had been feeling secure in their retirement plans. The market corrections of March 2020 and early 2022 have given investors sleepless nights as they worry about the impact on their retirement savings.

This concern is completely understandable. Whose future projections would have included a global pandemic that is still wreaking havoc more than two years later, or Russia upsetting the global order by invading its neighbour?

These are both extreme events that have been further amplified by occurring simultaneously. Therefore, I think it is safe to say that not many would have been prepared for this level of disruption.

These are extreme examples of risks affecting retirees, and little can be done to prevent them from happening. However, when facing any of the following four risks, there are ways to mitigate them.

1. LONGEVITY RISK

As much as we praise medical and biotechnical advances that combat common diseases or allow us to live longer, the consequence is that we now need to sustain ourselves for a longer lifespan. Unless you are prepared for this possibility, then chances are you could outlive your savings.

This is a significant challenge if your retirement assumptions have not accounted for a revised retirement age and life expectancy. According to the World Bank, the average life expectancy in South Africa has risen from less than 49 years in 1960 to 64 years in 2019. CNBC also reports that longevity is the biggest financial risk we face.

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Your future may not be risk-free, but it does not have to be filled with uncertainty.

Planning for your future well-being is a life-long commitment that is always easier when you have a skilled advisor by your side. Let us help you navigate these common retirement risks to build a prosperous future.

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You can counteract this risk by choosing a life annuity instead of a living annuity when retiring. The former is a sensible option if you are concerned that you will outlive your retirement savings, because a life annuity provides you with a guaranteed monthly income for life.

The life annuity, however, does have some drawbacks – specifically that your heirs will not receive a lump sum pay-out should you die earlier than anticipated. My suggestion is that you consider this option, however, invest the bulk of your savings in the life annuity, but keep a portion in alternative instruments to provide you with some liquidity.

2. MARKET RISK

In the same way that life expectancy is rising, we also know that markets will continue to rise and fall over time. If you are in or close to retirement, then time is the one luxury you do not really have and, therefore, you face greater risk from market dips.

Retiring during a bear market is far from ideal, especially if your portfolio is heavily weighted toward listed equities or other asset classes which are currently under pressure. You can reduce your risk to some degree by obtaining impartial advice from a financial advisor on the best way forward.

If you have been working with an advisor, then hopefully you have been reducing overweight exposure to risky assets as you approach retirement age. Getting this rebalancing of your portfolio right is crucial because being too aggressively positioned increases your exposure to market volatility, whilst being too conservative may leave you short of money.

3. EXPECTED AND UNEXPECTED EXPENSES

As much as we would like to believe that life gets simpler during retirement, the reality is that life's hurdles and speed bumps do not simply disappear. As such, unexpected expenses for emergencies should be anticipated and catered for, and so too inevitable costs associated with healthcare and elderly care.

You can avoid unnecessary financial stress by maintaining an emergency savings fund for unexpected emergencies. And the best protection against the possibility of serious health scares is to take out a risk policy, ideally in your younger years, to cover critical illness for the extent of your life.

Another form of protection you can consider is medical aid gap cover that helps pay for medical expenses not covered by your medical plan.

Also bear in mind your future elderly care plan and costs. A nursing home equipped with the necessary facilities and expertise may be the best medical option for you, but be aware that this comes at a considerable cost.

4. FAMILY COMMITMENTS

Family remains family, no matter what your age. This means that circumstances may require sacrifices to assist loved ones during a crisis.

Risk and life insurance for you and your family is the best way to protect against the unknown, whilst having a succession plan in place helps to remove many uncertainties.

One of the most important steps is to draft a will so that your family's future is not determined by outside parties and rules as dictated by the Intestate Succession Act. Without a valid will, all assets in your estate are frozen and winding up your estate could take months to be finalised, leaving your family financially stranded. All it takes to avoid this is to draw up a legal will, which we are happy to help you put in place.

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