INVESTMENT REPORT

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IN THIS ISSUE

“Over the last 5-years the local equity market has under-performed both the developed and emerging market equities, confirming that offshore equities are no longer a luxury but a necessity for sustainable long-term growth within living annuities.”

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Speak to a financial adviser who can help navigate the intricacies and financial implications of retrenchment.

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RETIRING SOON… WHAT YOU NEED TO CONSIDER

By Suzean Haumann Certified Financial Planner® Brenthurst Wealth Management

You are retiring this year and are overwhelmed with all the information you are receiving. Not sure what to do with your hard-earned savings… but you must comply with the Income Tax Act by investing in a mandatory income paying annuity.

For many years retirees had the option between only two annuity types; **The guaranteed (life) annuity or the investment linked living annuity.** The first option pays you a guaranteed income for life and the living annuity the option between 2.5% and 17.5% per annum.

Since 2011 the Association of Savings & Investments South Africa (ASISA) has been collecting annual data on South Africa’s living annuity book. At the end of 2017 South Africans had R421.9bn retirement savings invested in 447 560 living annuities, compared to R155.2bn (278 000) end of 2011, reflecting the ever-growing retirement community, mainly the Baby Boomers.

REASON FOR CONCERN:

The remaining concern is that investors’ income drawdown rates are much higher than the underlying fund performances within their portfolios.

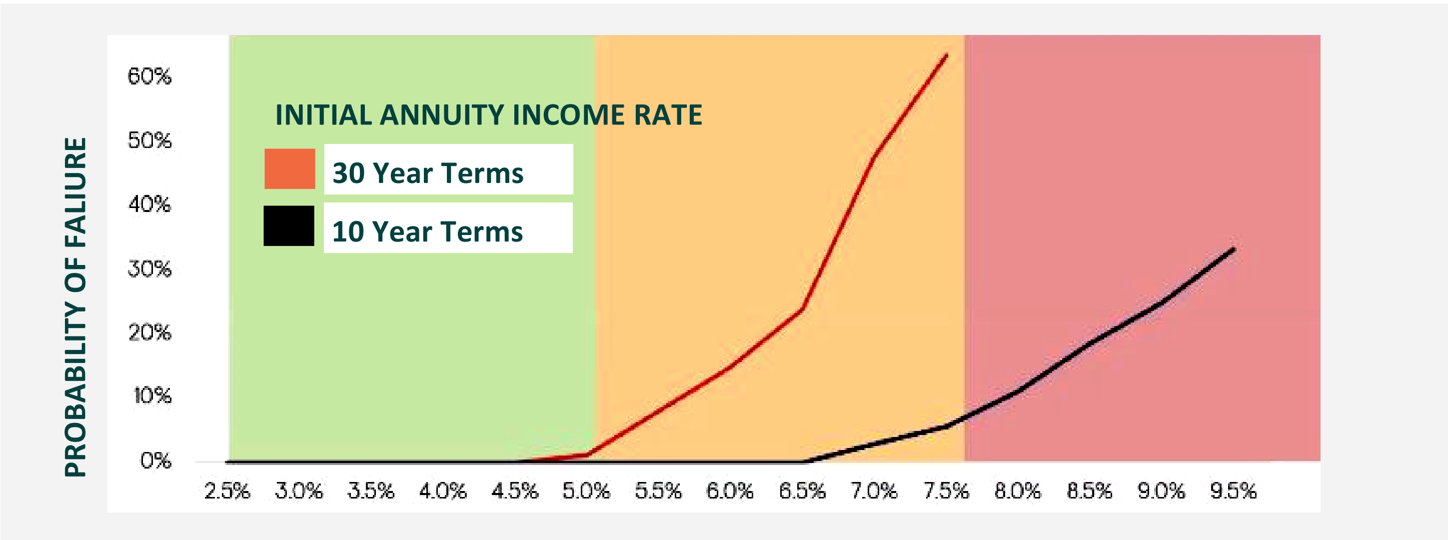
One must consider the term post-retirement, level of income drawdown as well as annual fees associated with the investment – the growth of the port-folio must outweigh these to ensure a sustainable long-term income stream. **When the drawdown is much higher than the growth the reality is that you will erode your capital over time, leaving you with very little to no income in your final years**.

Jaco van Tonder, Advisor Services Director at Ninety One Asset Management looks at a "safe annuity rate" by comparing two scenarios;

- **First scenario is based on a retiree age 60-65 and an investment term of 30 years.**
- **Second scenario is a retiree age between 70 and 75 with an investment term of around 10 years.**

The graph below displays the likelihood of failure (running out of capital) within these scenarios.

The first scenario indicates a safe annuity income rate between 4.5% and 5% with higher probability for failure when the rate is higher than this for a 30-year term. For a retiree in their 70's the level of income increases to around 6.5% to 7.5% with a high probability of failure for an level above 7.5% for a 10-year term. Should your term be around 20 years, an income level between 5.5% and 6.5% could be seen as the safe income rate.



South African drawdown rates within the living annuity space has been fairly consistent since 2011 and latest numbers reflect a slight decrease in the average income levels. Still this average is much higher than the advised 4%-5% per annum and based on the graph above many retirees will have to adjust their level of income need in the later stages of their lives.

ASISA AVERAGE LIVING ANNUITY DRAWDOWN LEVELS*

2011	2012	2013	2014	2015	2016	2017
6.99%	6.77%	6.63%	6.59%	6.44%	6.62%	6.64%

** The average income drawdown level is weighted by fund size (the total value of the drawdowns against the total value of the living annuity book.*

ANNUITY INVESTMENT OPTIONS

To comply with the law in South Africa members of pension and retirement annuity funds must use at least two-thirds of their accumulated balances to buy an income post retirement. These must qualify legally as annuities. The rules do differ for provident funds.

CURRENTLY THERE ARE 3 TYPES OF PRODUCTS THAT QUALIFY AS AN ANNUITY:

1. THE GUARANTEED (LIFE) ANNUITY:

Guaranteed annuity provides an income for life.

⇒ It is purchased by an insurance company or pension fund and will pay the income regardless of the annuitants age. The older the annuitant, the higher the initial income due to the estimated reduction in "living" years.

⇒ You have the option that your spouse receives a reduced income upon your death and different payment options as specified by the individual product you are purchasing.

⇒ Upon the death of the last surviving policyholder the investment seizes to exist, and no benefit can be paid to a beneficiary.

2. LIVING ANNUITY:

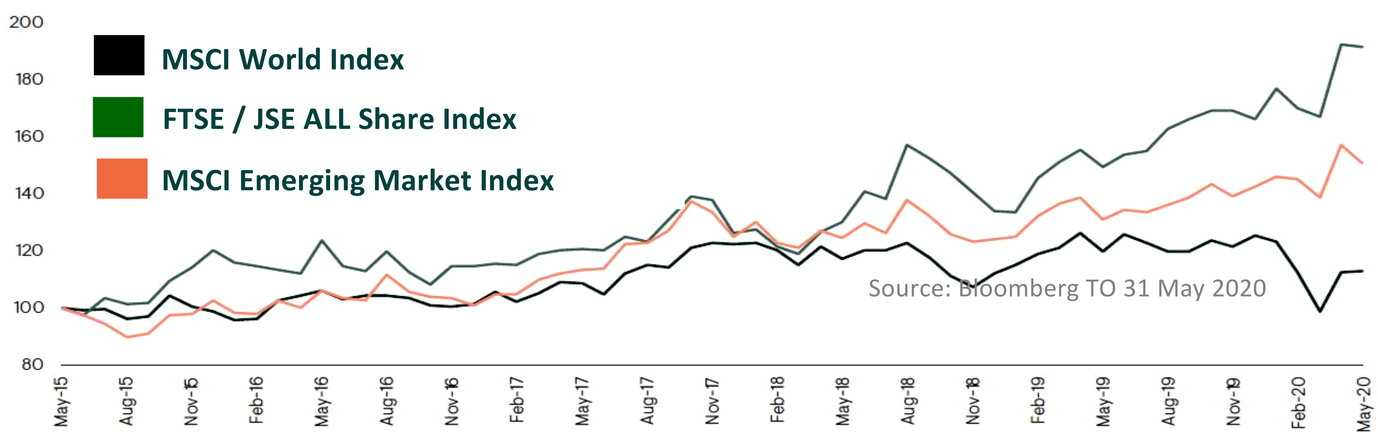
Within the living annuity you are invested into unit trusts or share portfolio.

⇒ The living annuity is by far the most popular income paying vehicle in retirement, mainly because the investors feel more in control of their investment.

⇒ When the income drawdown is too high, you could soon sit without an income when the capital is depleted, and it is therefore vitally important to consider the asset allocation within the portfolio based on the income percentage.

Over the last 5-years the local equity market has underperformed both the developed and emerging market equities, confirming that offshore equities are no longer a luxury but a necessity for sustainable long-term growth within living annuities.

5 YEARS TO 31 MAY 2020 (ZAR)



	Cumulative Return	Annualised Return
ALSI	13.0%	2.5%
Developed Markets	92.1%	13.9%
Emerging Markets	51.1%	8.6%

3. THE "HYBRID" ANNUITY:

A relatively new concept in income annuity options is the combination of the first two options.

⇒ Within this investment you can buy a guaranteed income portion and invest the remaining balance in a living annuity while it will remain one investment in totality. The guaranteed income will be paid into your living annuity giving you the peace of mind that you do have some income paid to you until you die. The living annuity portion can then be utilised into a more aggressive offshore fund which enable you a possible higher income when you are older.

⇒ You can opt for the reduced income payment to your spouse in the event of your death and the guaranteed portion will "fall away" upon the last owner's death, but in the event that there are still a remaining balance in the living annuity portion, this can be bequeathed to your beneficiaries.

HOW DO I MAKE THE DECISION WHAT TO INVEST IN?

ALL THREE OF THE MENTIONED INVESTMENTS HAVE THEIR ADVANTAGES AND DISADVANTAGES.

For longevity protection, certainty and small capital lump sums, the **GUARANTEED ANNUITY** might be the preferred investment choice. When you do not have a large savings pool, you have the real risk of depleting your income source before you pass away. The guaranteed annuity can offer piece of mind that there will be income payable until the end.

For larger amounts and with active management, **LIVING ANNUITIES** can be the correct option as you have more flexibility around income drawdowns, and you have the benefit of the balance being left to your loved-ones upon death.

They **HYBRID ANNUITY** can in many cases also be the saving where clients do not want to live with the uncertainty of the markets and the possibility of "loosing" capital in volatile markets forcing them to reduce their income. This option gives them the ease of knowing that they do have an income guaranteed while taking on some additional risk within the living annuity space.

WHAT CAN PENSIONERS DO NOW DURING COVID-19?

We have seen sharp reductions and volatility in the world's equity markets, which have affected pensioners' investment portfolios during the current pandemic. No one can say how long the recovery period will be and in what shape it will be in.

The investment performance numbers for the first quarter of 2020 reflect a wide dispersion in performance across different funds. A variety of funds have seen a negative return anything between -30% and 2% for the first three months of the year. Many investors therefore experienced a decrease of 10% – 15% in their living annuities and are now asking what they can do:

1. Do not make any drastic changes to your portfolio like moving into cash. This will lock in losses and you will not partake in the recovery of equities as it is very difficult to time the market to get back in.
The JSE All Share Index showed some recovery already:

THE FTSE / JSE ALL SHARE INDEX (IN ZAR) (50,483)

2. If your income drawdown has been higher than preferred before Covid-19, this might be the opportune time to review and reduce this drawdown to ensure as much possible saving for the years ahead. The South African Reserve Bank has reduced the repo rate which offer a relieve for South Africans paying off debt – reducing their monthly instalments.

3. Possibly the hardest of all is adjusting your lifestyle. It is never easy to change something you have been accustomed to, but in certain cases this is very important to reduce expenses when your income is negatively affected. Read more about retirement planning.

Each individual investor and his/her circumstances are unique and should be reviewed holistically. There is no cookie cutter approach, or one size fits all investment. Speak to a qualified advisor to help you re-evaluate your investments or speak to us regarding your upcoming retirement.

For a comprehensive financial planning strategy including asset allocation, risk planning, estate planning, tax planning, offshore investment READ MORE >> WEALTH MANAGERS

SUZEAN HAUMANN, CERTIFIED FINANCIAL PLANNER® AND FOREIGN EXCHANGE CONSULTANT

SUZEAN is head of the Tygervalley office. She is a CERTIFIED FINANCIAL PLANNER® and a registered member of the Financial Planning Institute of South Africa.

She has experience in various aspects of financial planning, focusing on investment and retirement planning. Suzean is also a qualified Foreign Exchange Consultant for the company with a wealth of knowledge in offshore investments.

Suzean joined Brenthurst in 2010 and is fully qualified to give advice on all investment matters.

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BRENTHURST WEALTH RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017 AND RUNNER-UP IN 2018 AT INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD