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CHANGE YOUR LIVING ANNUITY, NOT YOUR DRAWDOWN RATE

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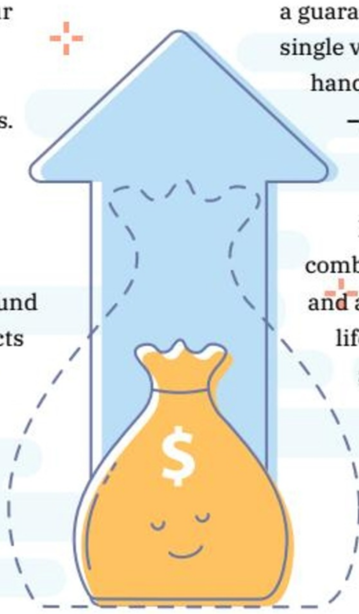
The relatively poor market returns over the last five years, coupled with the devastating crash in March this year, has exposed the risks associated with standard living annuities where pensioners carry all of the investment and longevity risk on their own.

As part of its response to the COVID-19 crisis, National Treasury announced a change in living annuity drawdown restrictions where pensioners will be allowed to temporarily adjust their drawdown rate to as low as 0.5% or as high as 20%, even if it is not the anniversary date of the living annuity.

Many commentators suggest living annuity investors do nothing in a tumultuous market, and there may be merit in that. Others suggest you reduce your drawdown rate, which makes sense on paper, but is not a possibility for most pensioners. Insights from Just's retirement-focused study in 2019 revealed that two in five respondents said they cannot afford to lose any retirement fund money before it seriously affects their retirement plans.

But current market conditions present a unique opportunity to improve the sustainability of your income in retirement despite the recent market movements. And this does not require you to reduce your drawdown rate.



A combination of market factors caused long-term interest rates on bonds to increase (and is a rare opportunity not seen in many other countries around the world). This is really good news for pensioners looking to secure an income for life. Life annuity rates improved significantly, which meant a guaranteed retirement income was cheaper compared to before the market crash. Great – but you may be asking what that has to do with sustaining an income in a living annuity.

No guarantees are provided in a standard living annuity. The good news therefore only really applies to living annuities that have the ability to access a guaranteed income within a single vehicle. And there are only a handful available in the market – referred to as 'blended' living annuities.

Recent research has proven that a combination of a living annuity and a guaranteed income for life offers a more optimal solution than either on its own. A blended living annuity will allow you to maximise consumption by securing lifetime income to cover essential expenses, or to re-invest, and you can maintain discretion over the balance of the assets to maximise the long-term capital growth to meet flexible financial needs or to leave a legacy to beneficiaries.

As it stands, current regulations do not allow you to split your living annuity after retirement. So, in order to make your retirement income more sustainable, you may want to consider the following:

- If you are already invested in a blended living annuity, consider increasing your allocation to the lifetime income portfolio to secure a higher guaranteed income for life
- Transferring your entire living annuity to a blended living annuity to access a lifetime income portfolio
- Converting your entire living annuity to a guaranteed life annuity, especially if you are drawing at a rate higher than the recommended drawdown rates
- Remaining in a standard living annuity and effectively self-insuring against volatile markets and outliving your capital.

The age-old investment advice is stay invested for the long term. But if your time horizon is shorter, you should also focus on additional options to secure a sustainable long-term solution to protect yourself (even partially) from the next market crash. •