# NAVIGATING THE ROUTE TO A COMFORTABLE RETIREMENT

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Our lives as we know them have been overturned in recent months as the COVID-19 pandemic takes root around the world. Markets globally have been hard hit, including in South Africa. Locally, the economy is estimated to be losing around R13bn a day during the lockdown.

In an effort to stimulate the economy and provide both households and businesses some relief, the South African Reserve Bank (SARB) has in recent weeks announced two significant rate cuts. While this is good news for those with debt, it is not such good news for retirees dependent on interest from savings, particularly as further rate cuts have been mooted for later in the year. For both investors and retirees who have exited the market in recent weeks as a result of alarming volatility and utilised bank-deposit accounts, these interest rate cuts are similarly concerning.

For those planning to retire imminently, the recent market declines don't bode well for their future plans. Even those who have been saving for the last 35 to 40 years and have seen their investments traditionally deliver a healthy return will have seen their investments devalued when compared to the beginning of the year. The reality is that the JSE, and probably most global markets too, are likely to continue a period of low returns as we ride out the uncertainty around the impact of COVID-19. However, before you start panicking, what's important to remember is that markets have sold off before but over time they recover.

When planning for your retirement, you should evaluate how much money you need to replace your current lifestyle. If the answer is that you don't have enough money to retire, this is not the time to bury your head in the sand like the proverbial ostrich and hope the situation rectifies itself of its own accord.

The topic of frequent news articles, the reality is that most South Africans have not saved sufficiently for their retirement.

The South African Saving Institute (SASI) attributes this to a high level of domestic indebtedness, leaving little disposable income over for the purposes of saving. Most people have a natural aversion to having to ask their offspring for help, but what can you do to address the situation?

If you have not put aside sufficient savings for retirement and your retirement is imminent, you have two choices: the first is to cut your income needs to a point where your retirement capital can sustain the drawdowns; or secondly, you extend your career, thus providing time to allow your capital to grow – or you do something to supplement your income while at the same time saving as much as you can.

While professional advice is a good idea, it's just as important that you spend time educating yourself so that you know to ask the right questions and have a good idea of the available alternatives. Take your time regarding the decisions you make and make sure that all decisions are based on good information, given that it's going to be almost impossible to undo the choices you make now in a decade's time.

My advice at this point is to focus on what you can control. Avoid making any short-term, knee-jerk or emotional decisions. Ideally, a retirement plan needs to be approached with a sensible, long-term attitude. The plan itself needs to include a detailed, yet flexible investment strategy. It does not need to be rolled out immediately but can be rolled out over a period of time.

Start by mapping out a strategic asset allocation – this should include your exposure to cash, bonds, property and any equity investments, both local and global – which has exposure to growth assets. Your asset allocation will play a significant role in your investment and retirement outcome. Ultimately, what you want to be aiming for is a well-diversified investment portfolio that is tax efficient and optimises any available tax benefits. It's a tricky balance formulating a portfolio strategy that complements your income and growth objectives, as well as considering unforeseen circumstances.

The ideal asset allocation in a living annuity, according to research conducted by Ninety One Asset Management – previously known as Investec Asset Management – is a consistent 20 to 35% exposure to offshore equities, irrespective of the size of the initial income drawdown levels. While Ninety One's research is focused specifically on living annuities and does not consider a portfolio outside of a living annuity, the principles remain relevant.

You don't have to have the ultimate equity allocation in your portfolio from the outset. What's more important is that you have a plan that includes a targeted allocation, and that you know how you are going to ultimately achieve that allocation. This could mean slowly adding cash to your equity assets over a certain period of time.

While it may be tempting to invest into markets while they are low, I would still advise a cautious approach, given that markets and currencies are likely to be volatile for at least the next while.

Think carefully about your product blend, as you need to ensure you have sufficient liquidity during retirement and prepare for the fact that you may live for 30 years post retirement.

Make sure you have sufficient cash in your reserves in order to avoid the need to make unnecessary drawdowns on long-term investments. It's always a good idea to have some cash in a portfolio, despite knowing that, over time, the long-term return on cash results in capital erosion – in other words, the return after tax could be below inflation. A rule of thumb is to have up to three month's income in a quickly accessible investment.

Don't forget to factor in the risk side of financial planning. This means having adequate insurance in place should you become disabled or suffer some kind of event that impacts your health. Consider getting life cover to offset any liabilities.

A common mistake made at retirement age is to upgrade cars and to take a holiday. For the time being I would suggest parking this idea. Taking too much income and capital out of your nest egg at the outset has a negative long-term impact on your capital's sustainability. Any large upfront drawdowns in the current environment will crystallise any market losses. Instead, adopt a conservative approach to spending and try to avoid any big-ticket expenses.

Another good reason for utilising a conservative approach is sequencing risk. This is the risk that occurs as a result of retirement calculators, assuming your returns occur in a straight line – in other words, by a certain percentage every year. Assuming a conservative annual return overcomes some of this risk.

Market volatility is not an unusual phenomenon. Key to a successful retirement strategy is the ability to rise above the noise of market volatility and focus on the high level and long-term strategy. Only once this is in place can you adapt it for the current environment. •