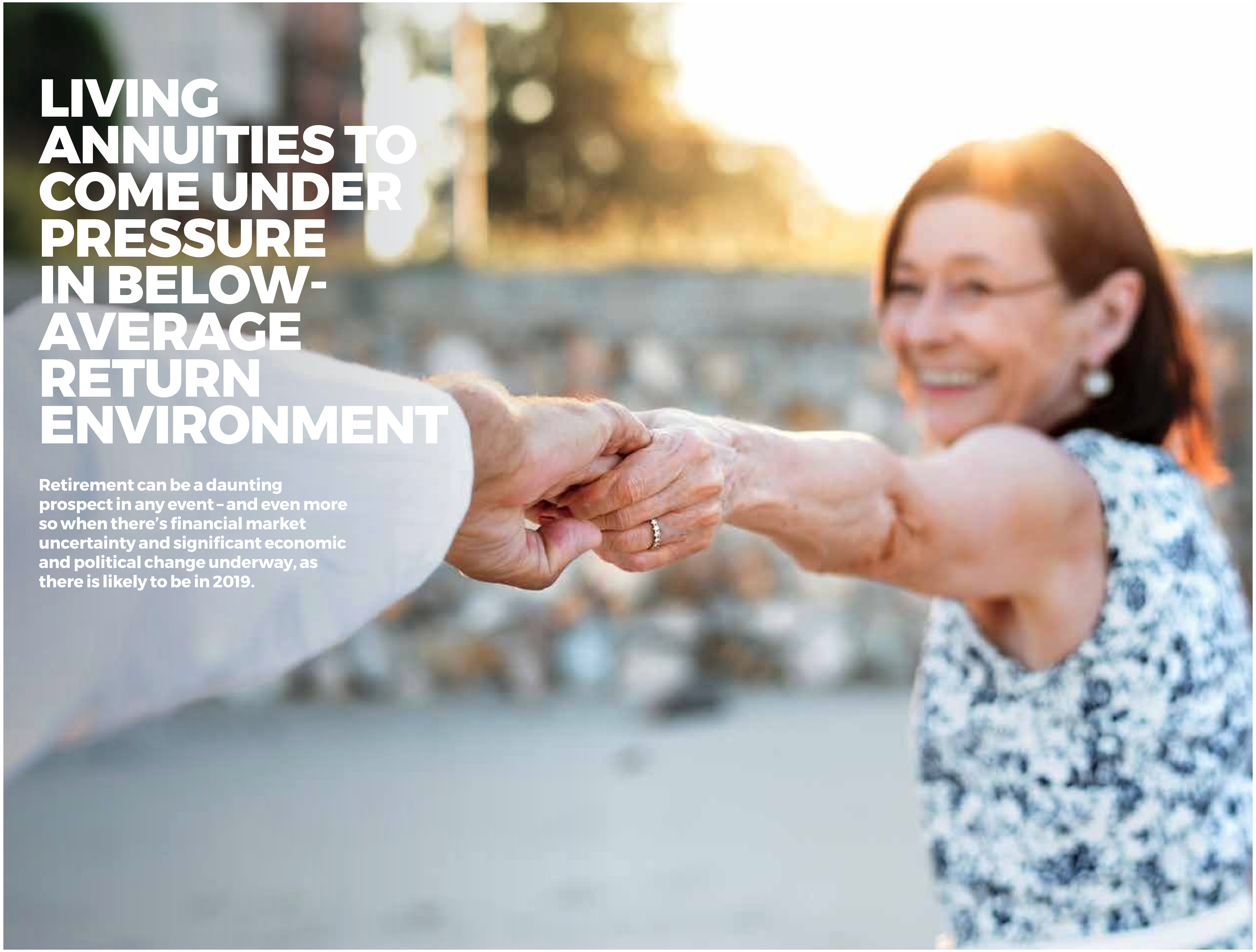

LIVING ANNUITIES TO COME UNDER PRESSURE IN BELOW-AVERAGE RETURN ENVIRONMENT

Retirement can be a daunting prospect in any event – and even more so when there's financial market uncertainty and significant economic and political change underway, as there is likely to be in 2019.

Credit: Rawpixel

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Not only is it a time of personal adjustment, but it is also a time to make financial decisions that will impact your lifestyle for the rest of your life. Retired investors commonly face the dilemma of either maintaining a certain lifestyle or adjusting it in order to preserve their savings. Typically, the more income you draw and spend today, the less income you can draw in the future. When inflation is added to this quandary, it becomes important to also grow that income over time to retain buying power in real terms.

A drawdown rate of 6% is common in the market place but Marriott's research* shows that, at that rate, almost half of retirees would have depleted their capital within 30 years. The concern for retired investors today is that markets are volatile and returns are expected to be below average for the foreseeable future. This suggests many living annuities will come under pressure in the years ahead.

Marriott has two suggestions for retired investors:

01/ MATCH THE INCOME DRAWN WITH THE INCOME PRODUCED

Investors should be aware of how much income their portfolio is generating and try to draw no more than the income produced – thus avoiding capital erosion. Investments that produce reliable and consistent income streams assist investors in matching income drawn with income produced. If an investor can avoid drawing more than what their investment produces they can secure their future income – this is especially important

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in the early stages of retirement. If investors wish to draw more income than what their investment is producing, it should be with the knowledge that they are eroding their capital.

02/ CHOOSE INVESTMENTS THAT PRODUCE CONSISTENT INCOME STREAMS THAT GROW OVER TIME

Investors also need to ensure they protect themselves against the impact of rising living costs over time. Investments that produce reliable income streams that also grow over time, like equities, are critical for a successful retirement. By including the right equities – those which have a reliable, growing, inflation-hedged income stream – investors will be able to ensure growth in their investment income over time. The trade-off of including equities, however, is that initially an investor's portfolio will produce less income. Investors need to find the appropriate level of exposure to the different asset classes that will give them enough income, as well as income growth over time.

Marriott's investment portfolios are managed with an income focus – to produce a certain amount of income, as well as income and capital growth. This investment style is in contrast to many others, where the investments are managed with a capital growth objective.

MARRIOTT'S INVESTMENT PORTFOLIOS ARE MANAGED WITH AN INCOME FOCUS – TO PRODUCE A CERTAIN AMOUNT OF INCOME, AS WELL AS INCOME AND CAPITAL GROWTH.

The basis of a capital growth objective is that investment growth will offset the income withdrawals. This appears to work well when capital values are increasing because capital erosion is masked by the market rise. When markets decline, however, the value of the investment will decrease sharply due to the twin effects of capital erosion and lower market values.

At Marriott, we suggest that investors examine their situation carefully when considering using capital to supplement their income. We recommend that investors match the income drawn with the income produced by their investment until they reach a stage in their retirement years when it may become safer to draw down on capital. While investors may find it challenging initially to restrict their annuity income to the income produced in the current economic environment, this is preferable to running out of capital. Rather be conservative now, than risk having to find another source of income, such as going back to work or having to reduce one's standard of living at some point in the future.

* Research sources: Marriott, I-Net and Professor C. Firer's studies on the history of capital markets