RETIREES: EARN A SAFE INCOME FROM YOUR INVESTMENTS

With low interest rates likely to remain for the forseeable future and stock market volatility plaguing investors around the world, many retirees are struggling to generate sustainable income from their investments. Here are some pointers to help you make safe decisions about your income.

HOW MUCH TO DRAW FROM YOUR SAVINGS?
On an annual basis you should review how much income you withdraw from your capital in a year and calculate this as a percentage of your total investment assets i.e. don't include your home or vehicles as assets. If your capital is invested in retirement funds e.g. living annuities, you should be drawing an income of 5% to 8% per year. If you are relatively young then you should aim to draw less (e.g. closer to 5%) and if you are elderly, you can draw more i.e. 8% or even higher if you are over 75 years old. Younger retirees should try to draw less from their retirement funds because they might live for many years so they need to protect their capital for as long as possible.

If you are drawing 12% or more you need to be really careful because you cannot afford any losses even though you need as much income as possible. Try to limit your monthly costs and find alternative sources of income or capital. If you still own your home, you could sell it and rent a small apartment instead. This will free up some capital and limit your monthly expenses as you no longer have home maintenance costs.

YOU *CAN* DRAW ON YOUR CAPITAL
When you are retired and you find that the income from your assets is not sufficient to meet your needs, it can be very frightening to start drawing on your capital. This does not mean that you are necessarily in dire straights. Diversified investment portfolios of cash, bonds, property and shares can sustain some capital withdrawals over the long term. If you have R3m invested in a diversifed portfolio, you can draw a maximum of R240,000 per year. This amounts to 8% of the R3m. This level of withdrawal should ensure that your capital lasts for a substantial period of time i.e. potentially 20 years or longer. If you are only drawing 4%, your capital might last indefinitely. A withdrawal rate of 12% will definitely erode your capital, you will be fortunate if it lasts 15 years.

YOU NEED DIVERSIFICATION
While the stock market can be scary because it is so volatile, it is important to understand that shares and commercial property are the investment assets that have a proven history of beating inflation over the long term. The stock market is the easiest place for a private investor to access investments that have the ability to beat inflation over a five to ten year period. You need to have some exposure to the stock market, even if you are risk averse and hate losing money in the short-term. A

small allocation to shares can help. If you have 35% in shares with the balance in bonds and cash, your capital growth should beat inflation over the long-term. This type of allocation to shares is considered low-risk and should result in limited capital losses in the event of a major stock market crash.

If you only draw 5% from your capital on a yearly basis, you can have up to 70% in shares. In good years, you will get significant capital growth, which will compensate you for the bad years where you might experience a significant loss. Because you are only drawing 5% of your capital, it is likely that your money will still be able to recover after a market crash even if it takes a year or three.