Protecting your retirement savings in a pandemic

By Vickie Lange

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Many investors from around the world, including South Africans, are becoming increasingly concerned about the impact of Covid-19 on what may be their biggest investment - their retirement savings.

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Retirement fund savings have decreased

The value of your retirement savings is linked to what happens in the financial markets as most are invested in financial markets. Most retirement savings include some investments in shares. In the case of shares, when their value or price is increasing your savings will also be growing. When share prices are falling, the value of your savings will go down.

Share prices in all countries have fallen because of Covid-19 and other problems in the world economy. What we are also seeing is that shares are not the only asset class falling during this time. We are experiencing a broad-based fall across most asset classes, including more defensive investment types such as bonds.

These events have led to a decrease in retirement savings.

Global financial markets affect retirement savings in South Africa. What happens in the world economy and to global financial markets can affect retirement savings that are invested in financial markets offshore or local investments.

This means that the recent falls in global financial markets have had a negative impact on the value of your investments.

Managing retirement fund savings during high market volatility

Different asset types behave differently over time and during different market cycles. Growth assets (investments), like shares (equity), and property, look to achieve an investment return that exceeds inflation. Assets like cash and bonds, on the other hand, achieve lower, more steady returns relative to growth assets.

When investment values fall, people often react by changing their investment portfolios or preferring a cash-type investment like a money market fund, but because we don't know when financial markets will fall and how far they will fall, these actions usually take place too late after investment values have already decreased.

Although switching into cash or other similar assets may seem like a good idea right now, these asset classes are less likely to grow your money by more than inflation in the long term.

It's easy to get emotional about your life savings. Hasty or poorly informed decisions could prevent you from reaching your goals. The most suitable investment portfolio for you to be invested in is one that will help you achieve your goals. She warns against impulsive reactions that leave you with savings that fall short of your needs.

Continue contributions to your retirement fund

Investors should make every effort to continue their retirement fund contributions. Retirement funds have several other benefits that are worth mentioning:

- Contributions are tax deductible, so this lowers members' annual taxable income.
- Tax exemptions apply while retirement savings remain in a fund. No tax on interest, no capital gains tax and, no dividend withholding tax apply. Tax only applies when retirement savings are taken in cash by members when they leave an employer.
- No estate duty is payable on retirement savings, so this increases the benefits payable to beneficiaries.
- Retirement savings are generally protected from creditors.
- You benefit from lower costs. Employees will still need to save for their retirement, and the fees through an employer-sponsored arrangement are normally much lower than the employee could get by saving outside the retirement fund.
- Compulsory savings are a benefit. Most employees rely on their retirement funds as their only source of savings. By not having a retirement fund, employees will struggle to make ends meet when they retire.

We love shopping when goods are on sale but strangely our instincts often differ when it comes to our investments. A decline in investment values often results in investors reacting impulsively by selling or changing their investments. However, it is during these periods that investors can afford to buy more shares with their money, just like when goods are on sale. This may lead to better investment values in future as markets recover.

ABOUT THE AUTHOR

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