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Remain calm - your retirement savings and COVID-19

Retirement fund members may be worried about the impact that volatility is having on the investment markets, where a big portion of their retirement savings is invested. Volatility is usually due to uncertainty. While there are a few factors that are driving uncertainty and market volatility right now, one of the major attributors is COVID-19.

The next time members look at their retirement benefit statement, there is a good chance that they'll be disappointed and concerned by low, or even negative, investment returns and a possible decline in the value of their retirement savings. However, Nashalin Portrag, Head of FundsAtWork at Momentum Corporate, says it is important to remain calm. There are a number of measures retirement fund members can take to bolster their retirement savings.

According to Portrag, time is a great healer and the markets are no exception. Those members with time on their side, like 10 years or more from retirement, can rest easy knowing that markets generally recover after sharp drawdowns and that their retirement savings will likely recover the value lost due to COVID-19 volatility, in the long term. Members closer to retirement or planning to retire this year should speak to a qualified financial adviser for guidance on minimising the impact of COVID-19 volatility on their retirement savings and to make the right choice of annuity.

As a retirement fund member, you may have a big portion of your retirement savings invested in assets like local and global equities and property. These asset classes can be very volatile. Portrag says these growth assets are an essential part of the asset mix required to deliver inflation-beating returns. Returns that are well above inflation make sure that inflation does not erode the purchasing power of your retirement savings. Most members with investment horizons longer than 10 years away should target returns of inflation + 6% per year.

High, inflation-beating returns also help us to save more for retirement. This is important because people can expect to live longer nowadays and therefore need to stretch their retirement savings over a longer retirement period.

Portrag says, "When markets are volatile, we may be tempted to make emotional decisions like switching to a portfolio with less volatile assets. While a more defensive portfolio offers lower short-term risk, it also comes with expected lower long-term returns. History shows that markets rise and fall all the time, but the overall trend is steady upward growth over the long term. Even if your returns are currently poor or negative due to market volatility, it is likely your portfolio will recover and deliver the inflation-beating returns you need to save for retirement.

The other problem with switching when the market is declining is that you “lock in your losses” because you sell at the lower prices that currently prevail. It also means that you lose out on the opportunity to recover your losses and benefit from increasing prices when the market recovers.”

According to Portrag, as long as a member is invested in a portfolio that matches their investment goals, the best action for most is to remain calm, stay invested and ride out the volatility wave.

In fact, if you can afford to and your retirement fund allows it, now is a good time to make additional voluntary contributions to your retirement fund. The current low prices mean that you’ll be able to purchase more units than when the market is stable or rising, and you’ll benefit even more when the market recovers.

Portrag continues, “Some umbrella fund members with group insurance benefits also have access to monthly financial rewards linked to their health status and level of physical activity. If you are an umbrella fund member, find out if your fund offers this value-added benefit. If it does, it’s a great time to register and channel your monthly financial rewards towards your retirement savings.”

Some members may find that their employer is temporarily suspending or putting retirement fund contributions on hold, or reducing employees’ pensionable salaries in order to ease cash flow pressures due to the COVID-19 lockdown. In fact the Financial Sector Conduct Authority is encouraging retirement funds to allow this flexibility. According to Portrag, some progressive retirement funds are already offering participating employers a range of options in this regard.

Portrag says, “Members in this position should try their best to make additional voluntary contributions to their fund once business returns to normal. This will help them to catch up and reduce the impact these understandable short-term actions could have on their long-term retirement outcomes.

Portrag concludes, “Time will heal the impact of COVID-19 volatility on most members’ retirement savings. However, if you are near to retirement, about to resign or face retrenchment, it’s very important to talk to a qualified financial adviser for help in developing a strategy to minimise the impact of COVID-19 volatility on your retirement savings.”