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COVID-19 and your client' retirement savings

30 March 2020: All investors have probably noticed that the investment markets where a big portion of their retirement savings are invested have experienced volatility over the last weeks. As a result, their investment returns and the impact on their retirement savings is likely to be disappointing and a concern when next they look at their retirement fund benefit statement.

Volatility is usually due to uncertainty. There are a few factors that have impacted on market volatility recently, such as continued concerns around global growth and trade wars. However, the biggest driver of uncertainty and market volatility right now is the coronavirus (COVID-19).

Here are answers to some of the questions you as a financial adviser may have to answer about how COVID-19 and the market volatility it is causing will impact on your clients' savings for retirement.

Why are clients' retirement savings invested in volatile assets?

Assets like local and global equities and property may be volatile, but they are also growth assets and an essential part of the asset mix needed to deliver inflation-beating returns. Returns that are well above inflation are important so that inflation does not erode the purchasing power of their savings. Most members of retirement funds should target investment returns around inflation +6% per year.

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

Will their investment bounce back from the market downturn?

We have experienced volatile markets many times in the past. History shows us that markets rise and fall all the time, but the overall trend is steady upward growth over the long term. It is likely that their portfolio will recover and deliver the inflation-beating returns they need to help them save enough for a comfortable retirement, in the long term.

What if they decide to switch to a portfolio with less volatile assets?

Investors or members of retirement funds need to do two things to switch. First, they will need to move out of the market and then, at some future date, they will have to move back into the market.

To exit the market means they will be selling at the lower prices that currently prevail. This means that they "lock in their losses" and lose out on the opportunity to recover these losses and benefit from increasing prices when the market recovers.

Plus, selling and locking in losses means having to re-enter the market with an investment that has decreased in value.

What should your clients do right now?

When investment markets are volatile, it's tempting to make emotional decisions based on the positive or negative information they see in the media.

As long as they are invested in a portfolio matched to their investment goals, the best action is to remain calm. They should consider staying invested and ride the volatility wave.

What should your clients do if their personal circumstances change?

It is important to stick to a long-term investment strategy for retirement and not allow market ups and downs to throw them off course. However, it is also important to review their strategy and change it, especially if their personal circumstances change.

Members of retirement funds should talk to a qualified financial adviser when their personal circumstances change, for example, if they change jobs, get married or are nearing retirement. The industry expertise and investment knowledge of a qualified financial adviser will help them make smart, informed decisions to support their personal journey to financial success.

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