

Conservative is reckless when death is delayed



TRADING

AGENDA

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TRADITIONALLY, the first rule of investing for those at the end of their working lives is: "Don't lose the capital." However, Coronation Fund Managers chief investment officer Karl Leinberger warns that retirees should avoid being "recklessly conservative" with their capital.

While the risk of capital loss is well known, Leinberger argues there is a less understood risk: longevity. "We are living in a different world to the one in which textbooks on retirement were written and the rules of the game are changing."

While people in earlier decades generally died in their 70s, they are now likely to live 20 years longer. With luck – good or bad, depending on how you see it – they could live into their 90s. Leinberger points out, for those who retire in their early 60s, retirement would then amount to three quarters of the average person's working life. And they may find their provisions don't see them through.

The problem is compounded in the current economic environment because returns are lower than they were in the boom years. So return on investment may not be enough to replace the annual draw-downs made by retirees.

The old formula worked in recent years because conventional low risk investments paid off. "We have had a once in a lifetime boom in property stocks which in the past 10 years have given you something like 23 percent compound returns," says Leinberger. "It's been an extraordinary period and we don't think that would be repeated over the next 10 years."

There has also been a major global bull market in bonds, which thrived in a world of declining inflation.

"In South Africa we had a very tough central bank that broke the back of inflation through tough interest rate decisions and we had our own bull market."

In other words, the stars were in alignment for people in low risk investments. But the stars are moving out of position. Property no longer generates returns and, in South Africa, bonds are exposed to the hazard of rising inflation.

What this boils down to is that retirees may have to take riskier bets in future. Leinberger says he is not suggesting "excessive exposure" to risk, but that retirees should be "judiciously invested up the risk curve", bearing in mind the long-term demands that will be made on the nest egg.

The problem of increasing longevity has another dimension in the case of social pensions. It is one of the major challenges facing European governments as they attempt to slash spending.

Last year the European Commission said it took the contributions of four workers to support two retirees. And the imbalance was expected to get worse.

"The number of retired people in Europe compared to those financing their pensions is forecast to double by 2060."

In Italy, new Prime Minister Mario Monti is proposing to postpone the retirement age to 67 from 65. And the French government, which had already hit headwinds when it wanted to raise the retirement age from 60 to 62 by 2018, now wants to bring forward the date to 2017.

The proposals are proving a political hot potato. And Mariano Rajoy, the leading contender for the job of Spain's prime minister, has ducked the issue. Sapa-AFP reported on Friday that he vowed to make cuts everywhere, "except for pensions".

Among the problems is that there may not be enough jobs to go around, given the outlook for the euro area.

When Europe's policymakers finally get to grips with the immediate dangers they will have to move on to the long-term threats to their financial stability.