Issue 1 of 2020

The Coronavirus (COVID-19) and your Retirement Fund

As everyone knows COVID-19 has escalated to a pandemic and we have all been inundated with emails and social media messages about the spread of the virus and how to combat the infection. This communication is not about either of these.

This communication is to advise you of the impact of COVID-19 on your retirement fund and what it means for you. There are two aspects to a retirement fund, the first is to provide an income once you retire and the second is to provide insured benefits should something happen to you while you are still working.

Let's consider the impact of COVID-19 on both aspects:

1. **Your insured benefits** | The good news is that most of your insured benefits, including lumpsum death benefits, disability benefits (lumpsum and income disability) and critical illness (dread disease) benefits, will be unaffected and will not have any exclusions for viral infections such as COVID-19. Rudi van Rooyen the Head of Specialised Pricing in Group Insurance of Momentum Corporate advised the following:

   "In an instance whereby an employee contracts COVID-19, due processes in terms of employee benefits would follow. The employee would most likely take sick leave and then utilise their medical scheme should they be hospitalised. In the unfortunate event that the Coronavirus leads to death, members' death benefit will be payable from their employee benefits arrangement."

   Rudi further advised that this does not mean that COVID-19 will never be excluded in the future. Insurers and reinsurers monitor these events on a continuous basis in order to actively manage risks that in an extreme scenario could be detrimental to both policyholders and the sustainability of the broader insurance industry. Any changes to policy terms and conditions will be widely communicated.

What about disability? Based on the incidences in China it seems that people can recover quickly from the virus if they receive treatment on time. In most instances full recovery is expected within the scheme's disability waiting period. For this reason, disability claims due to the virus are expected to be minimal.

As travel is part of many occupations, regular business trips are often an unavoidable necessity for many employees. Group insurance does not provide travel insurance. The group insurance benefits are generally extended when people travel abroad. If people are seconded to work in countries other than South Africa, insurers will typically limit their cover. For example, employees will only be covered for the first twelve months of working outside the borders of South Africa.

If employees will be working abroad for longer than 12 months or travelling to high risk areas (as set out in the policy), authorisation is needed from the insurer. This can be arranged through the employer's Human Resources department. If an employer is unsure, they should contact their broker or insurer directly.

2. **Your savings for retirement** | Unfortunately, the good news does not extend to your retirement savings. A large portion of your savings for retirement, up to 75%, can be invested in the stock market. As fears continue to grow over the impact of COVID-19 financial markets have slumped. By the time most investors start being concerned about their returns and consider switching their investments, the loss has been made, the damage has been done. Selling at the lower prices means investors lock in any losses and prevent their investments from recovering when prices rebound. There is an expression that says "*sell low, buy high and repeat until broke*".

You must resist the urge to panic when it comes to your retirement savings.

Here are a few tips to help you stay on track for your retirement:

Retirement savings in the long term | The stock market goes up and down in the short term, but in the long term, they tend to climb upwards regardless of the short-term volatility. Over the long-term the equity market has outperformed every other asset class. **This means that you should be invested in the stock market!**

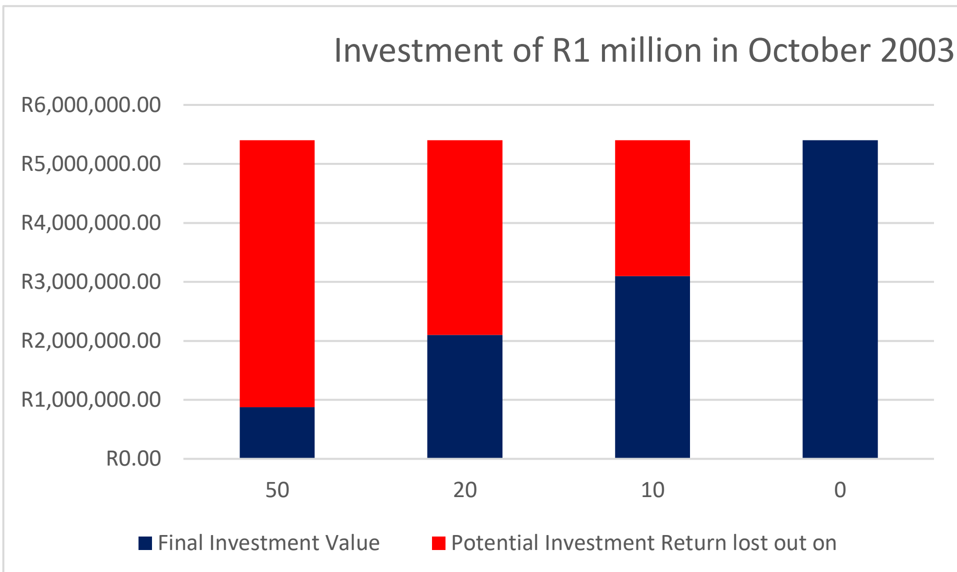
You need time in the market and not try to time the market | No matter how many times this truth is repeated, investors continue to try time the market. You may succeed once or twice, but getting it right consistently is another matter altogether. Trying to predict the future is like chewing bubble-gum to solve a geometry equation. There are many examples of market timing failures.

The research company Morningstar did an analysis using the JSE All Share Index to demonstrate the difference in returns between an investor who decided to stay the course, and three other investors who missed out on the 10 best days, the 20 best days and 50 best days, from October 2003 to October 2018. The study assumed that all four investors invested R1 million in October 2003.

At the end of the cycle:

1. The investment of the investor who missed out on the best 50 days was worth R875 000 – a loss of R125 000.
2. The investment of the investor who missed out on the best 20 days was worth R2.1 million.
3. The investment of the investor who missed the 10 best days by trying to time the market was worth R3.1 million.
4. The investment of the investor who stayed invested was worth R5.4 million.

Graphically this can be displayed as follows:



Losses are simply part of investing | The worst response to negative returns in the market is to panic. Learning to ignore this is one of the most valuable skills a long-term investor can acquire. Sometimes, simply not over-reacting to monthly statements is the most effective way to remain focused on long-term goals.

Know your time horizon | A common misconception is that savings for retirement ends at your retirement date. The reality is that you need to invest for the rest of your life. This means that you must maintain a longer-term view on your savings. Most retirees in South Africa use their retirement savings to purchase a living annuity. This means that they remain invested in the market while drawing an income every month from their investment.

Cash may seem safe but can be the riskiest investment when it comes to retirement savings | Risk-averse investors may gain psychological comfort from steering clear of equity market volatility by moving into cash. While possibly considered ‘safer’, cash destroys value because there are too few actual times that cash delivers better returns than the stocks in the long term.

So, what should you do?

If you have made your own investment choice, please consider your age, term to retirement and ensure that you are appropriately invested. You as a member, are personally responsible for your investment strategy if you are not in the default portfolio set by your Board of Trustees or Advisory Committee.

Remember that you are in this for the long haul, e.g. up to 35 years to save for retirement depending on your current age. Short term fluctuations should be ignored. For the most part take a deep breath, don't make rushed decisions and plan to invest for the long-term. Do not make any investment decisions without the advice of a suitably qualified financial planner to guide you through this decision.

Written by Trevor Kingsley-Wilkins
for Momentum Consultants & Actuaries
March 2020