

SHORT ARTICLE SERIES

Our purpose at Atleha-edu is to help ordinary South Africans save and invest for a better tomorrow.

We do this through Financial Sector Code (FSC)-compliant awareness and interactive education programmes focused on retirement fund trustee, management committee member, and fund member awareness and education initiatives, such as this article.

We would like to thank Just SA for funding this article series.



WHAT IS AN ANNUITY?

When you approach retirement, you will need to decide whether to invest the two thirds of your pension fund or retirement annuity in a living or a guaranteed life annuity. But with so many financial service providers offering a host of life, living and hybrid annuity products, it may be difficult to know which annuity product gives you the best possible retirement income that is best suited to your individual circumstances.

Annuities provide a predictable, regular income stream in exchange for an initial fixed payment. Around the world, annuities are often used to fund retirement. Annuities are categorized into retirement and post-retirement annuities.

A (pre-retirement) retirement annuity is a tax-efficient savings product into which regular monthly or lump sum contributions are made while you are still employed. Then there are post-retirement annuity products. [This article focuses on post-retirement annuities.](#)

In South Africa, when you retire, if you are a member of a retirement or pension fund or have invested your own money in a retirement annuity (or RA) over the years, you are legally required to use two thirds of your retirement savings to purchase a post-retirement annuity product, either a living or a guaranteed life annuity (also known as a guaranteed or conventional annuity) or a combination of the two. These annuity products provide regular monthly income in retirement.

! It is important to understand the fine print before deciding which post-retirement annuity product you're best suited to, as you're unable to change your mind or get your capital back once the product has been purchased.

Living Annuity

A living annuity is a product that is linked to an investment portfolio; therefore, your income is dependent on the amount invested and the performance of the underlying investments. This is a flexible solution that allows you to withdraw between 2.5% and 17.5% of your retirement capital annually.

Since it is reliant on market performance, your retirement income cannot be guaranteed. The risk associated with living annuities is that they do not guarantee a retirement income for life, and there is a chance that you may eat into your capital too quickly – especially during times of poor market performance. This means that you may run out of money before you die.

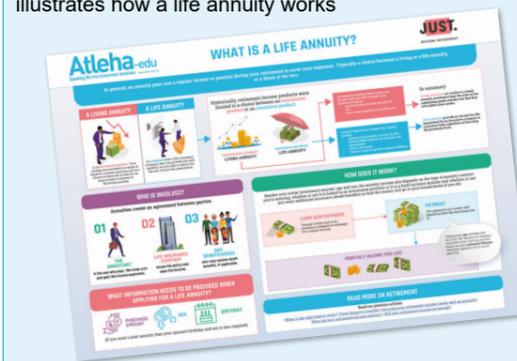
Life Annuity

Guaranteed life annuities provide a level of security and peace of mind by guaranteeing a retirement income that will never decrease, even in the event of a market crash or in the case that you live a long life.

Traditional life annuities are designed to offer pensioners security by providing a guaranteed income for life that never decreases. They are available in two basic forms:

- **With-profit guaranteed life annuities** have an underlying investment component that determines their increase potential.
- **Non-profit guaranteed life annuities**, such as inflation-linked or fixed escalation annuities, provide a guaranteed increase either equal to inflation or to the selected fixed escalation rate.

See our related infographic on What is a life annuity? which illustrates how a life annuity works



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A Blended Retirement Option

One way to combine the best of both living annuities and guaranteed life annuities and overcome their disadvantages is to use both. At retirement, current regulations allow retirees to split part of their pre-retirement savings between multiple living annuity and/or guaranteed life annuity products, with one or multiple insurers. A blended annuity enables you as the annuity holder to include a guaranteed life annuity as one of the investment portfolios *within* a living annuity.

By purchasing a blended annuity, you can weigh up your wants and needs, then decide how much to allocate to the guaranteed component and how much remains flexible. Blending also allows you to optimise your income over time, balancing the risk of outliving your savings by adding to the guaranteed component when required.

It is very important to consider your retirement objectives when deciding between a life, living or blended annuity. Below are a few examples of retirement objectives and an indication as to what type of annuity would meet the desired objective:

Your Retirement Objectives	Guaranteed Life Annuity	Living Annuity
Flexibility to increase or decrease withdrawal rate	x	✓
Guaranteed income that will never decrease	✓	x
Income for life	✓	x
Protection from inflation	✓	x
Ability to leave a financial legacy i.e., money to spouse / dependants	✓ (Income legacy)*	✓ (Capital legacy)**
Enhanced income subject to medical underwriting	✓	x

Source: Just SA

GLOSSARY

***Income legacy:** Policyholder can select a joint guaranteed life annuity, which guarantees payments for as long as the annuitant and their spouse live. If both spouses die early, some benefits provide for a third beneficiary to receive payments. A joint guaranteed life annuity provides lifelong income for both the annuitant and the surviving spouse, where the income is guaranteed to be paid until the death of their spouse (or an elected third beneficiary) at a pre-defined percent of the income at death of the main policyholder (e.g., 50%, 75% or 100%).

**** Capital legacy:** Policyholder can select a minimum payment period of up to 20 years. Upon the death of the last surviving spouse before the end of this period, the remaining payments can be paid as income or a lump sum to nominated beneficiaries.

References:

Just SA | Atleha-edu | National Treasury

To learn more about Atleha-edu NPC and our CFE funders and partners, please download our info [brochure here](#).

Do you have a question that you would like us to address in a subsequent article?

If so, please send your questions or suggestions for article topics by email to:

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