GLOBAL
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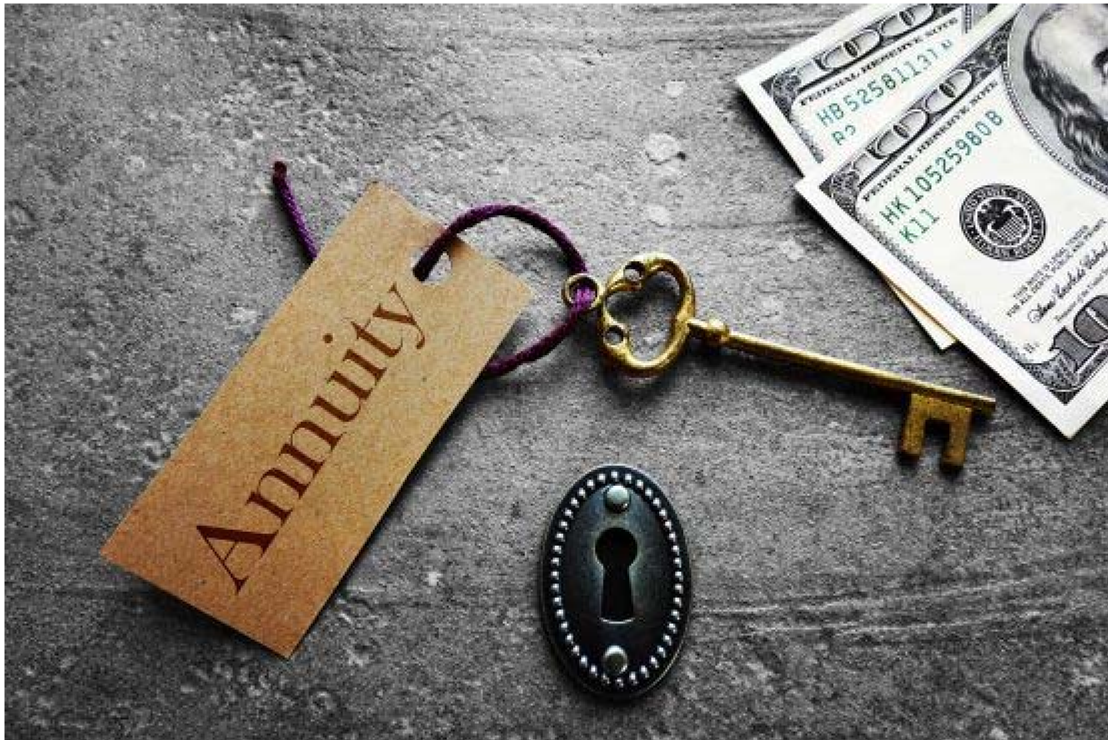
# Living Annuity
# vs
# Fixed Annuity

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If you have now reached retirement, which is from age 55, it's time to start drawing an income from your retirement savings.

Retirees will now be faced with a choice of two annuity options: purchasing either a living annuity or a life annuity.

## What is an annuity?

An annuity is a financial product that pays you a regular income at retirement. As a member of a pension, pension preservation or retirement annuity fund, you must use at least two-thirds of your fund proceeds at retirement to purchase an annuity.

Once you elect to retire from a retirement savings product this will now cease to exist, and your two-thirds is then invested into either a living annuity or life annuity.

## What is the difference between a living annuity and a life annuity?

### *Living annuity:*

A living annuity allows you to select an annual income drawdown percentage of between 2.5% and 17.5% per annum. You can select an income frequency of monthly, bi-annual, quarterly or an annual payment. This income percentage can be changed – but only once a year on the anniversary date of the investment. This gives you more flexibility and the ability to draw a higher income if needed.

### *Life annuity:*

A life annuity secures you a pre-determined monthly income for the rest of your life. This product is provided by a life insurance company, where you hand over to the company the lump sum of the retirement saving and they take on the obligation to pay you an income for the rest of your life.

The income may be a fixed rand amount, or it might be inflation-linked, or you can add a spouse benefit with a guaranteed payment term.

## What happens to the annuity on the death of the annuitant?

### *Living annuity:*

On your death the remaining capital value in a living annuity will be paid to your nominated beneficiaries. Please note that if there are no beneficiaries nominated this will form part of your estate. Your beneficiaries can elect to receive the residual value as a lump sum or as an annuity, or a combination of both.

### *Life annuity:*

On death the life annuity will fall away, as this option does not allow you to nominate a beneficiary. The only thing you can nominate is a spouse benefit or a guaranteed period, where it continues to pay the income until the spouse passes away or until the guaranteed period has ended.

The downside of a life annuity is that while your income is guaranteed for the rest of your life, you are unable to elect a beneficiary unless the contract includes a guaranteed period or a spouse benefit.

## What are the disadvantages of the two options?

### *Living annuity:*

- The risk of a living annuity is that you may run out of funds and be left with no pension. This could be due to poor performance in the markets, withdrawing too much for your living expenses, or simply by living longer than expected.

### *Life annuity:*

- You're unable to elect a beneficiary, which means your money dies with you and no money passes on to your heirs.
- You do not have the flexibility of changing the income drawdown amount; once this has been calculated by the life company it will be fixed.
- There is the risk of inflation. Although annuities provide an income for life that mostly increases annually, there is no guarantee that annuity increases will keep up with pensioner inflation. This could include a big portion of unexpected medical expenses which exceeds increases in CPI.

### How is the income from an annuity taxed?

Annuity income is taxable as income as per the investor's marginal tax rate.

### On a living annuity if you change your mind are you able to withdraw what is invested in full?

Unfortunately, you are unable to withdraw a living annuity in full. The only time this will be allowed is if the value that is invested drops below R125 000. This withdrawal will be subject to tax.

### Are you able to have offshore exposure in a living annuity investment?

You can have a living annuity which is directly invested in offshore funds. This means the funds you select are foreign currency-denominated and you can select options that are euro-, pound- and dollar-based.

While the majority of the funds can be placed directly offshore, we do have to keep a small potion in a local fund in order to pay your income and for fees.