RETHINK RETIREMENT

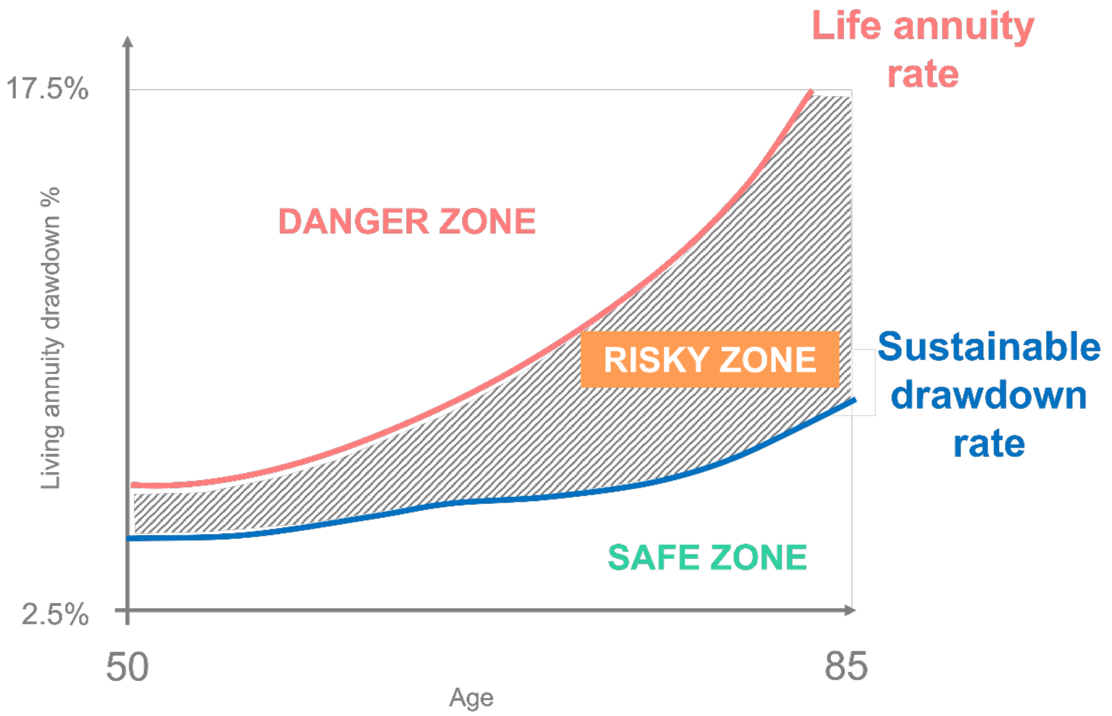
LIVING ANNUITY CLIENTS DON'T NEED TO BECOME A BURDEN ON THEIR CHILDREN

November 2022

- 2/3 of living annuity clients draw more than the recommended sustainable drawdown rate
- Half of these could secure their current income for life (with inflation protection)
- This may be their last opportunity to do so, given high interest rates
- They don't need to risk becoming a burden to their children

A recent study of around 10% of the living annuity market conducted by Just SA, shows

- an average drawdown rate of 8.5% per year.
- two thirds draw more than the recommended sustainable drawdown rate[1] and risk running out of money in retirement.



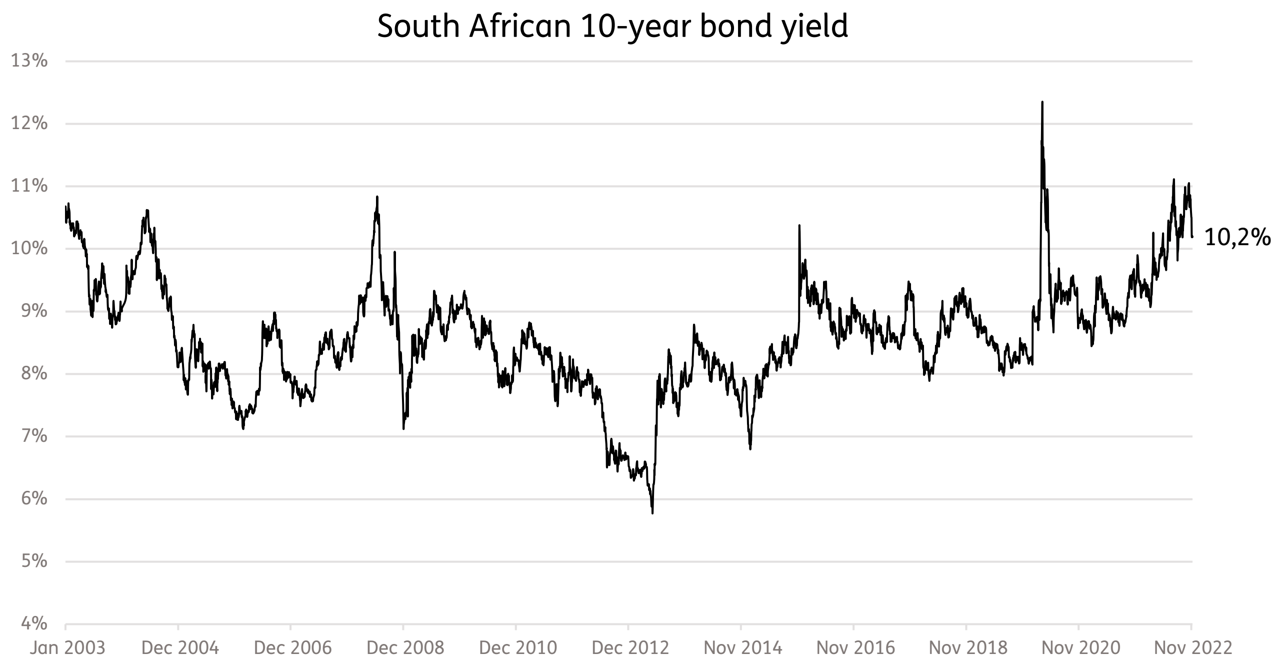
Source: Just SA

The irony is, half of these could guarantee that income for life, with annual increases that target inflation, by investing part of their living annuity assets in a life annuity (those in the 'Risky Zone' in the diagram above). The simple reason that life annuities sustain a higher income for life, is that policyholders pool their risk and those who die earlier cross-subsidise those that live longer.

This may be the last opportunity for those in the Risky Zone to be able to secure their current income, guaranteed for life.

[1] FSCA: Draft conduct standard of 2020 (RF): Conditions for Living Annuities in an Annuity Strategy

Long term interest rates, even after a correction in early November, are high relative to levels seen over the past 20 years (yields on 10-year SA Government Bonds shown below). This means high annuity rates to secure relatively high guaranteed income for life.



Source: [South Africa 10-Year Bond Historical Data - Investing.com] (15 November 2022)

On the other hand, if they remain fully exposed to investment markets, a downward correction in equity markets will force those in the Risky Zone to eat into their capital to maintain their current level of income. They will slip towards the danger zone, where they can no longer guarantee that level of income for the rest of their life. It is not necessary for them to run this risk of becoming a burden on their children.

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