



Fin-Ed

Free Financial Education
for Our Community

LIVING ANNUITY VS LIFE ANNUITY

Which is right for you?



LIVING ANNUITY

You keep your capital invested
and draw an income.

ADVANTAGES

- ✓ Flexible income
- ✓ Investment growth potential
- ✓ Capital remains for beneficiaries

DISADVANTAGES

- ✗ You carry the investment risk
- ✗ Risk of outliving your money
- ✗ Income is not guaranteed



LIFE ANNUITY

You exchange your capital for a
guaranteed income for life.

ADVANTAGES

- ✓ Guaranteed income for life
- ✓ No investment management required
- ✓ Protection against outliving your money

DISADVANTAGES

- ✗ Limited flexibility
- ✗ Limited or no capital for beneficiaries
- ✗ Less control over investments and income



THE HYBRID APPROACH

Combine both options for
certainty and flexibility.

LIFE ANNUITY BUCKET

Covers essential expenses.



LIVING ANNUITY BUCKET

For lifestyle, growth
and legacy.



THE MOST IMPORTANT QUESTION

Which option is right for your
financial situation and goals?



The answer will be
different for every retiree.



Plan today for the retirement you want and the **peace of mind** you deserve.

Living Annuity vs Life Annuity: Which Is Right for You?

One of the most important financial decisions you will make at retirement is how to convert your retirement savings into a sustainable income.

For most South Africans retiring from a retirement annuity, pension fund, provident fund, or preservation fund, the choice comes down to two options:

A Living Annuity or A Life Annuity.

Both provide retirement income, but they operate very differently and each has its own advantages and disadvantages.

Understanding the differences is essential because the decision can have a significant impact on your financial security throughout retirement.

What Is a Living Annuity?

A Living Annuity is an investment account that allows you to keep your retirement capital invested while drawing an income from it.

You remain the owner of the investment capital and have control over how the money is invested.

The law allows you to withdraw between **2.5% and 17.5%** of the investment value each year.

Your retirement income will depend on:

- The value of your investments
- Investment performance
- The income percentage you select
- Future market conditions

Simply put:

You control the capital and the income.



Advantages of a Living Annuity

Flexibility

You can adjust your income level annually to suit your changing needs.

Investment Choice

You decide how your capital is invested and can select investment funds that align with your objectives and risk profile.

Potential for Growth

Because the capital remains invested, it has the opportunity to continue growing and potentially outpace inflation.

Estate Planning Benefits

Any remaining capital upon your death passes directly to your nominated beneficiaries. This often provides significant estate planning advantages.

Access to Offshore Investments

Living annuities allow retirees to invest a portion of their retirement capital in offshore markets, providing diversification and growth opportunities.

Disadvantages of a Living Annuity

You Carry the Risk

If investment returns are poor or withdrawals are too high, your capital may be depleted during your lifetime.

Longevity Risk

You bear the risk of living longer than expected and exhausting your retirement savings.

Income Is Not Guaranteed

Future income levels depend on investment performance and the sustainability of withdrawals.

What Is a Life Annuity?

A Life Annuity works differently.

Instead of retaining your retirement capital, you use it to purchase a guaranteed income from a life insurance company.

In exchange, the insurer promises to pay you an income for the rest of your life.

The income can be structured in various ways:

- Level income
- Increasing income
- Inflation-linked income
- Income guaranteed for a minimum period
- Joint-life income for spouses

The insurer assumes the investment and longevity risk.

Advantages of a Life Annuity

Guaranteed Income for Life

You cannot outlive your income. Regardless of how long you live, the income continues.

Simplicity

There is no need to manage investments or monitor withdrawal rates.

Protection Against Longevity Risk

The insurer carries the risk of you living longer than expected.

Reduced Investment Stress

Market fluctuations do not directly affect your monthly income.



Disadvantages of a Life Annuity

Limited Flexibility

Once purchased, the decision is generally irreversible.

Limited Access to Capital

You no longer own the retirement capital. The capital belongs to the insurer.

Reduced Estate Benefits

In many cases, little or no capital remains for beneficiaries after your death, unless specific guarantees have been selected.

Less Control

You have limited ability to adjust income levels or investment strategies after retirement.

A Practical Example

Assume two retirees each retire with R5 million.

Retiree A – Living Annuity

- Capital remains invested.
- Withdraws 5% per year.
- Income can increase or decrease depending on investment performance.
- Remaining capital passes to beneficiaries.

Retiree B – Life Annuity

- Purchases a guaranteed life annuity.
- Receives a fixed or escalating income for life.
- No investment management required.
- Limited or no residual capital for beneficiaries.

Neither option is inherently better.

The best solution depends on the retiree's objectives and circumstances.

Which Option Is Best for You?

A Living Annuity may be suitable if:

- You want investment flexibility.
- You wish to leave an inheritance.
- You are comfortable with investment risk.
- You have sufficient capital to absorb market fluctuations.
- You have other sources of guaranteed income.

A Life Annuity may be suitable if:

- Your primary concern is income certainty.
- You do not want to manage investments.
- You want protection against outliving your money.
- You value guaranteed income above capital preservation.

The Hybrid Approach

Increasingly, many retirees are choosing a combination of both options.

This strategy allows retirees to enjoy the benefits of each.

For example:

Life Annuity Bucket

Provides guaranteed income for essential expenses such as:

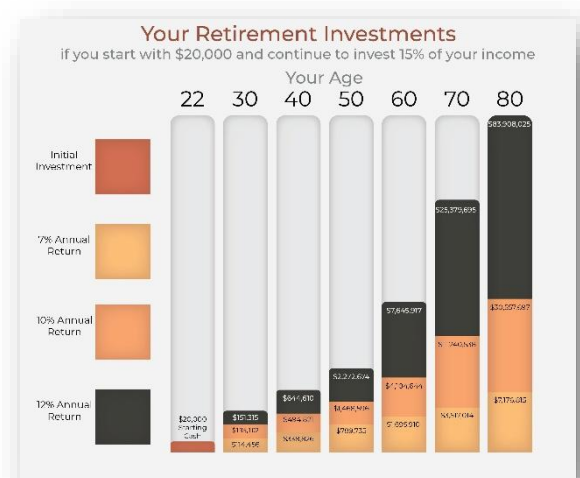
- Housing
- Food
- Utilities
- Medical aid

Living Annuity Bucket

Provides flexibility for:

- Travel
- Lifestyle expenses
- Inflation protection
- Legacy planning

This approach can provide both certainty and flexibility.



The Most Important Question

When choosing between a Living Annuity and a Life Annuity, the question should not be:

"Which product is better?"

The better question is:

"Which option is most appropriate for my financial situation, income requirements, risk tolerance, and retirement objectives?"

The answer will differ for every retiree.

Final Thoughts

Retirement planning does not end when you retire.

The decision of how to convert your retirement savings into an income is one of the most important financial choices you will ever make.

A Living Annuity offers flexibility, investment control, and estate planning benefits.

A Life Annuity offers certainty, simplicity, and protection against running out of money.

For many retirees, a carefully designed combination of the two may provide the best balance between security and flexibility.



FinEd – Empowering Better Financial Decisions Through Education

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