



# LIVING ANNUITY

## WHAT IS A LIVING ANNUITY?

A living annuity (LA) is a post-retirement vehicle that provides an income for you at retirement from the proceeds of your retirement funds. It is a flexible investment that allows you to choose the income that you receive as well as use underlying investments to grow and preserve your capital investment.

## WHAT ARE MY INCOME OPTIONS?

The main objective of your pension or provident fund is to build enough wealth to sustain your income and lifestyle during your retirement years. To prevent you from cashing out these benefits, the state enforces a tax incentive to encourage this saving. Your transfer to a preservation fund is free of tax, on condition you transfer from a pension fund to a preservation pension fund (or RA) or from a provident fund to a preservation provident fund (or RA). There is no tax on the returns earned within the preservation fund. Withdrawing the funds will incur tax consequences according to the SARS withdrawal tax tables.

## WHAT IF I NEED MONEY?

Living annuity investors who have a policy value of R125 000 or less will be able to withdraw the full amount as a cash lump sum.

## WHAT HAPPENS TO THE MONEY WHEN I DIE?

The death benefit from a living annuity is paid out to your nominated beneficiary(ies) and can be taken as a lump sum payment, transferred to another living annuity or a combination of both.

## WHAT OPTIONS DO MY BENEFICIARIES HAVE?

- They can continue with the annuity and receive the income, but be taxed on that income at their marginal tax rate.
- Take out the investment value in cash (subject to tax).
- They can continue with the annuity and receive the income, but be taxed on that income at their marginal tax rate. Have a combination of a cash withdrawal (subject to tax) and an income option.

## WHAT ARE THE RISKS INVOLVED?

- The income you choose to draw from your living annuity may be too high, causing your capital to reduce over time. This means that your future income could fail to keep pace with inflation or even that you outlive your investment.
- Choosing your own investment portfolio brings inherent risks. Your investment value and returns are not guaranteed and may move up or down. The value of your investment account depends on the market value of the underlying investments. If markets fall or returns are poor then your capital could reduce or fail to keep pace with inflation.

## WHAT ARE THE BENEFITS?

- You have the option to choose the underlying investment to grow your capital and provide income.
- The flexibility of your choice of income allows you to increase or decrease the income draw subject to the ASISA standards.
- At death the investment value is not forfeited, but can continue to be paid out as income or in cash to a nominated beneficiary.

## WHAT IS THE DIFFERENCE BETWEEN A LIFE ANNUITY AND A LIVING ANNUITY?

**Life Annuities** provide you with a guaranteed income for the rest of your life (based on the initial amount invested) and are usually dependent on the prevailing interest rates at the time. Inflation risk is a concern, depending on the annuity income escalations selected.

With a **Living Annuity**, you determine the income that you wish to draw from your investment (annually in advance) and your capital is dependent on the market value of the underlying investments. No capital or income is guaranteed. Income longevity could be a concern, depending on the initial income drawn at retirement.

## WHY DID WE RECOMMEND THE LIVING ANNUITY OVER A LIFE ANNUITY?

During our conversations (and in putting together your financial plan), we identified that by targeting the appropriate personal investment target and drawing the appropriate income, you could sustain your desired lifestyle. You also indicated that capital preservation and income flexibility was important to you, which is not suited for Life Annuities. It is important to note that you can convert a Living Annuity into a Life Annuity at any point going forward to provide you some form of guaranteed income if your financial plan ever required this.

\* As with any investment there are terms and conditions. Speak to your Financial Planner for more information on the Investment vehicle and to fully understand its benefits, features and risks.