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# LIVING ANNUITIES VS LIFE ANNUITIES: THE BASICS

**IT'S IMPORTANT TO BE INFORMED OF YOUR DIFFERENT OPTIONS AT RETIREMENT**

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**Reaching retirement can be a bit of a daunting experience, especially if you are not fully informed of your different options at retirement, as well as their respective advantages and disadvantages.**

**At retirement, retirees can access up to one-third of their retirement savings in the form of a cash lump sum. However, they will need to invest the balance of two-thirds in an annuity, which is ultimately a financial product that provides a regular income to the product owner during their retirement.**

## THE TWO TYPES OF ANNUITIES ARE:

1) LIVING ANNUITY, AND
2) LIFE ANNUITY.

The essential basics of each are:

## LIVING ANNUITY:

**One of the main advantages of a living annuity is that it provides flexibility. Each year the investor can choose an annual income drawdown percentage of between 2.5% and 17.5%. The drawdown selected will be paid according to the investor's preferred income frequency, which can be monthly, quarterly, biannually or annually. This means that each year the investor can adjust the income drawdown percentage, the income frequency or both.**

Another advantage of living annuities is that, when the investor dies, the remaining capital is paid out to the nominated beneficiaries, or to their estate where no beneficiaries have been nominated.

## IN THIS ISSUE

*Retirement requires meticulous planning and a dedicated investment strategy. Once retired, there are different options to consider.*

*As each investor's circumstances differ, it is advisable to consult with an experienced advisor to help you understand all the available options.*




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However, the main disadvantage is the risk of depleting the retirement funds before the investor dies. Therefore, it is extremely important to live within your means and not withdraw too large an income. Performance of markets can, of course, also have an impact on the lifespan of the living annuity. Thus, it would be advisable to invest your living annuity wisely, with guidance from an investment professional who can assist you in attaining your retirement goals.

## LIFE ANNUITY:

**A life annuity provides a pre-determined monthly income for the remainder of the investor's life. A life annuity is a preferred option for those who are concerned that their retirement savings may be depleted prematurely, or if being assured of a guaranteed income for the rest of their life gives them peace of mind.**

The provided income may either be a fixed rand amount or an amount that increases with inflation each year. One of the issues with a life annuity is that the income is fixed/predetermined, thus there is no flexibility. However, the main risk is that, should you pass away, the money "dies" too – this effectively means that there is no remaining capital for your beneficiaries or estate.

Each investor's circumstances differ. It is, therefore, advisable to consult with an experienced, qualified advisor to outline and help you understand all the available options and advise on what is best suited to your personal circumstances and retirement plan.

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