Most of us are required, by law, to invest at least two thirds of our retirement savings in an annuity when we retire. This is to ensure that we receive a monthly income, or pension, after we stop earning a salary. But choosing an annuity can be difficult. And it is vital that you make the right decision so that you can enjoy the retirement you deserve. Old Mutual Corporate created this leaflet to help you do just that.
MAKING THE BEST DECISION

Investing in a retirement fund is only one part of a successful retirement. The real retirement journey starts on the day you stop working - and the decisions you make about where to invest the money you have saved over the years will impact the type of retirement you get to experience.

LIFE ANNUITY

Ayanda has chosen to invest in a Life Annuity. It's a safe option that's a bit like buying a ticket to board a vessel that will take a fixed route through her retirement, allowing her to simply sit back and enjoy the ride.

Life Annuities come in various forms. It is important to seek out professional advice to help you choose the best option for your retirement journey.

LIVING ANNUITY

Nihaad has opted for a Living Annuity investment. It’s a bit like buying his own boat to sail through his retirement, because it lets him make many of his own choices and plot his own course.

CAUTION:

While Nihaad benefits from owning his Living Annuity and being able to structure the income streams from it, he also has to manage the risks associated with it.

DIY LIVING ANNUITY

Themba decides to build his own annuity by applying himself and learning everything he can about investing. While this allows him to determine his own income, it also means that, he needs to manage his annuity carefully, or he may run out of money and have to get some additional work to make ends meet.

DIY LIVING ANNUITY

Ashley cannot afford a life annuity that will cover her monthly expenses. Her only option is to carry on working to supplement the annuity she CAN afford and radically reduce her living expenses.

HIGH RETIREMENT SAVINGS

Prefer bigger rewards

Nihaad is adventurous and quick to grab an opportunity, even if it has some risks. Leaving a financial legacy is important to this entrepreneurially minded individual.

LOW RETIREMENT SAVINGS

Prefers lower risk

Themba is hard-working, successful, and likes to be actively involved in plotting a course through life. However, a few financial setbacks over the years mean there is less saved up for retirement than originally planned.

Ayanda is a healthy individual with a good amount of retirement capital who wants to be able to enjoy retirement without worrying about personal finances, the markets or the economy.

Ashley earned a fairly decent salary, but high monthly expenses never left much room for saving. Despite this Ashley would like to receive a regular retirement income, even if it is modest, without worrying about the savings getting used up.
THE **LIVING** ANNUITY JOURNEY

A Living Annuity allows Nihaad and Themba to decide how much income they would like to receive every year. It also allows them to decide where and how their retirement savings should be invested.

**CHOOSE YOUR ROUTE**

They use the information and knowledge they have to chart the best investment route and decide how much of their investment to use every year to meet their living expenses.

**LIVE WITHIN YOUR MEANS**

A Living Annuity gives them the power to adjust their income annually, but they need to be careful that they don’t use up all their savings while they still need to earn a pension.

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THE **LIFE** ANNUITY JOURNEY

When Ashley and Ayanda invest in a Life Annuity, they effectively buy a steady pension for the rest of their lives. The insurer accepts the investment risks and the responsibility to pay them an income until they pass away. But they don’t get to choose their pension amount - that is worked out according to how much they have to invest.

**WORKING CRUISE**

While Ashley manages to buy a small Life Annuity with the savings she has, the pension it pays her is not enough. She needs to cut her living expenses to make ends meet.

**BON VOYAGE**

Ayanda had enough savings to buy a Life Annuity that pays her a good monthly pension for life. She can relax and enjoy the journey without worrying about any market ups and downs along the way.
The Living Annuity Journey

A living annuity allows Nihaad and Themba to decide how much income they need to earn a pension. If Ashley is forced to supplement her income by coming out of retirement and working as many hours as she can. Her advancing age makes this an unpleasant prospect. If Nihaad lacks the expertise to make any poor decision that Themba or Nihaad make increases the risk of Themba facing unnecessary risks. Everybody thinks they’re an expert. Acting on advice that’s wrong for him could mean that his family is forced to come to the rescue.

Wealthy, the security of knowing that their ‘ship’ would get them to their destination. So, when they get to the end of their journey they aren’t sure about what to choose, be sure to speak to a financial adviser. Old Mutual Corporate Consultants – contact details:

- Western Cape: 021 530 9600 / 9608
- Eastern Cape: 041 391 6300 / 6304
- KwaZulu-Natal: 051 430 9787
- Johannesburg: 011 217 1280 / 1990
- Bloemfontein: 056 680 1280 / 1990
- Durban: 031 800 2000 / 0001
- Cape Town: 021 530 9600 / 9608
- Port Elizabeth: 041 391 6300 / 6304
- Pietermaritzburg: 033 800 6000 / 6001

HELP!

Good Conditions: With favourable market conditions, Nihaad could see his investments doing well and growing by more than the amount he is taking as a пенсион every year. As long as Ashley and Ayanda stick with their investments, and an expertly managed portfolio, they don’t have any assets to pass on. The good news for Nihaad is that having a Living Annuity means any funds remaining can be passed onto those he leaves behind. While Ashley and Ayanda experience very different journeys, their Life Annuity ensured that they never encountered any risk of losing their pension, and both eventually arrived at their journey’s end.

Now it is up to you having to relinquish both the money you are earning and a material, it is only the first half of the journey that really matters. If you are approaching retirement age, you must start to think about what is the most for you. Remember, if you still aren’t sure about what to choose, be sure to speak to a financial adviser. If Nihaad could see his investments doing well and growing by more than the amount he is taking as a пенсион every year. As long as Ashley and Ayanda stick with their investments, and an expertly managed portfolio, they don’t have any assets to pass on. The good news for Nihaad is that having a Living Annuity means any funds remaining can be passed onto those he leaves behind. While Ashley and Ayanda experience very different journeys, their Life Annuity ensured that they never encountered any risk of losing their pension, and both eventually arrived at their journey’s end.

The Life Annuity Journey

When Ashley and Ayanda went to see a financial adviser, the answer he gave them was that they need to invest money every year to meet their living expenses. While Ashley manages her savings, the pension it pays her is not enough. She needs to cut her living expenses to make ends meet. Living expenses to make ends meet.

Right Advice

If Ashley is forced to supplement her income by coming out of retirement and working as many hours as she can. Her advancing age makes this an unpleasant prospect. If Nihaad lacks the expertise to make any poor decision that Themba or Nihaad make increases the risk of Themba facing unnecessary risks. Everybody thinks they’re an expert. Acting on advice that’s wrong for him could mean that his family is forced to come to the rescue.
**LIVING ANNUITY**

**LIVING ANNUITIES IN A NUTSHELL**
- A retirement income option that allows you to decide how much income you earn.
- Capital exposure to the investment markets - could go up or down depending on market performance.
- You need to ensure that your drawdown rate (income) is sustainable so that you don’t run out of capital.
- If there is still capital left when you die, your beneficiaries can keep on receiving your pension payments or get a lump sum payment.

**PENSION INCOME**
- You choose how much income you want to receive as a percentage of your invested capital (drawdown rate).
- But if the amount you take out is more than the growth of your investment, your money could run out.

Here are some examples of different drawdown rates and their impact on capital:

<table>
<thead>
<tr>
<th>OPTIONS</th>
<th>DRAW DOWN</th>
<th>INCOME</th>
<th>OUTLIVING YOUR INCOME</th>
<th>INFLATION</th>
<th>POOR INVESTMENT RETURNS</th>
<th>LUMP SUM ON DEATH</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH DRAW DOWN</td>
<td>8%</td>
<td>R 6 700</td>
<td>No</td>
<td>Unlikely</td>
<td>No</td>
<td>✓ R 6 700</td>
</tr>
<tr>
<td>MED DRAW DOWN</td>
<td>4%</td>
<td>R 3 300</td>
<td>Maybe</td>
<td>Maybe</td>
<td>No</td>
<td>✓ R 3 300</td>
</tr>
<tr>
<td>LOW DRAW DOWN</td>
<td>2.5%</td>
<td>R 2 100</td>
<td>Maybe</td>
<td>Maybe</td>
<td>No</td>
<td>✓ R 2 100</td>
</tr>
</tbody>
</table>

ASSUMPTIONS: Single Male | 60 yr | R 1m Invested | CPI 6% | Investment return net of fees 7.5%

**INCOME INCREASES**
- Once a year you can change the drawdown rate, which alters the amount of income you get (subject to regulatory minimums and maximums).
- This must be done carefully - a high drawdown rate could mean your capital runs out.

**INVESTMENT RISKS AND YOUR INCOME**
- Your retirement capital is invested in underlying investment funds.
- You have a choice of investment funds.
- If the markets perform poorly, this will impact on your investment.

**WHAT HAPPENS WHEN YOU DIE?**
- You own the investment - if there is capital left it can go to your beneficiaries, or they can replace you as the living annuitant, and this capital may be used to underpin a living annuity payable to them.

**LIFE ANNUITY** (ALSO KNOWN AS A GUARANTEED ANNUITY)

**LIFE (GUARANTEED) ANNUITIES IN A NUTSHELL**
- A constant, predetermined income for as long as you live.
- Your income in retirement is guaranteed for life. There is no risk of receiving less income if markets perform badly, and you cannot outlive your retirement capital.
- No capital for beneficiaries when you pass away - but you can buy limited guarantees or insure a second life.

**WHAT HAPPENS WHEN YOU DIE?**
- There will be no money to leave to beneficiaries when you pass away, but you can choose a guaranteed term option where your pension gets paid to a beneficiary for the guarantee period after you die OR insure a second life - that person will get an income even if you pass away - Both of these will reduce the income you receive from your annuity in retirement.

**TYPES OF GUARANTEED ANNUITIES**
There are various types of Guaranteed Annuities, including:
- With-profit - These allow you to maintain some exposure to equity markets. Each year, your income will increase by a declared bonus - dependent on market performance. In some years the bonus may not match inflation.
- Fixed escalation - You can choose a fixed rate at which your income will increase annually. The starting income will depend on the escalation rate you choose. The higher the escalation rate, the lower the starting income will be.
- Inflation linked - Offers you protection against increases in the cost of living, but the cost of this protection is usually a lower starting income.
- Level - With this option you will get the highest starting income, but your income will never increase, so it will not keep up with the rising cost of living.

The table above provides an example of the possible real income, over time, a 60-year-old male could receive if he invested R1m into a with-profit guaranteed annuity at the age of 60. It also shows the risks from which such an annuity protects you.