



What is it?

A living annuity is a tax-efficient investment structure that:

- you invest into with at least 2/3rds of a matured retirement fund
- pays you an ongoing income, funded by its underlying investment value
- passes on to your beneficiaries, free from estate duty, upon death

Who is it for?

Individuals invested into a retirement fund that want to mature it after age 55 and:

- want to retain ownership of the underlying capital
- want a Shariah-compliant post-retirement investment structure
- don't want to make use of a guaranteed annuity (insurance policy)

Key Benefits



A living annuity (investment structure) allows more **flexibility of ongoing income** than a guaranteed annuity (insurance policy). The ongoing income you draw from a living annuity can be varied annually, based on your changing income needs and the underlying investments' market values. This flexibility is not possible with a guaranteed annuity, in which the ongoing income level is fixed from policy inception



You have **wide investment choice** within a living annuity. Regulation 28 (of the Pension Funds Act) investment restrictions do not apply. The underlying investment choice can be changed at any time after inception



It is **possible to switch** a living annuity into a guaranteed annuity. However, it is not possible to do the reverse (switch from a guaranteed annuity to a living annuity)



There are substantial **ongoing tax savings** on returns generated from investments in a living annuity. There are no taxes payable on dividends, capital gains, rental income and interest income earned within a living annuity



There is **no estate duty** payable on the investment value of a living annuity upon death. Beneficiaries of a living annuity can elect to receive a lumpsum, ongoing income or a combination of both. Lumpsums received by beneficiaries are taxed per the retirement lump sum tax table of the deceased. Ongoing income drawn by beneficiaries is taxed at their individual marginal income tax rates

Restrictions



Apart from transfers in from retirement funds, **no additional investment contributions are allowed** into a living annuity



The level of income you choose at inception of the living annuity is not guaranteed. You need to manage your ongoing income drawdown relative to the investment value and returns achieved, to ensure you do not deplete the capital too quickly



You **must draw an ongoing income** of between 2.5% and 17.5% per annum of the living annuity's investment value. This ongoing income can be drawn monthly, quarterly, semi-annually or annually



Your chosen **ongoing income drawdown percentage and frequency can only be adjusted annually.** These elections must be made before the policy anniversary date every year



Income tax is levied on ongoing income received from a living annuity at your marginal income tax rate

Invest Across

Investment Choice



Asset classes
(equities, property, fixed income, cash)



Geographies Geographies
(local, offshore, developed & emerging markets)



Investment styles
(passively managed ETF's, actively managed unit trusts, individual shares or custom-made portfolios)

Check out Sterling Invest (our in-house investment manager) for more information regarding these investment options
www.sterling.za.com

Recommended income withdrawals

There are two notable risks associated with a living annuity:

- You live longer than expected, resulting in your capital running out before death (**longevity risk**)
- The return on investment is lower than required to provide a sustainable ongoing income for life (**return risk**)

The following table can be used as a guide, in conjunction with proper financial advice, to determine the appropriate income drawdown level from a living annuity:

		Years before your ongoing income will start to reduce (in today's money)						GAUGE
		Investment return per annum (before inflation and after fees)						
Annual ongoing income rate selected at inception	2.5%	21	30	50	50	50	GOOD	
	5.0%	11	14	19	50	50		
	7.5%	6	8	10	13	22	FAIR	
	10.0%	4	5	6	7	9		
	12.5%	2	3	3	4	5	UNSUSTAINABLE	
	15.0%	1	1	2	2	2		
	17.5%	1	1	1	1	1		

Source: ASISA Standard on Living Annuities
Assumptions: The table assumes that you will adjust your selected ongoing income rate over time to maintain the same amount of real income at inception (allowing for inflation of 6% per annum). Once the number of years in the table above has been reached, your real income will diminish rapidly in the subsequent years

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