10 Important considerations when choosing a retirement income solution

Palesa Mtimkulu, Distribution Support Specialist at Glacier, shares her insights on a plan for a fruitful future.

There are several income solutions available to choose from when you retire, each meeting different requirements. Among these solutions, the two traditional ones that are currently used to provide retirees with an income from their retirement savings are a guaranteed life annuity and a living annuity.

However, when it comes to choosing a sustainable retirement income solution that will allow you to retire with confidence, Glacier believes that there is no one-size-fits-all solution, and that retirement income stream management requires a careful evaluation of your specific needs, circumstances, and concerns. Below is a list of 10 factors to consider when choosing your retirement income solution.

1. **Longevity protection: Will my retirement savings last as long as me?**
   Depending on the underlying products in your solution, there could be a risk of living longer than expected and outliving your retirement savings. This can happen if your retirement savings are used solely to purchase an investment-linked living annuity in which the retirement income is not guaranteed, and the underlying capital could be depleted by your chosen income drawdowns and market performance. To cater for this risk in your retirement income solution, you may want to consider including a conventional life annuity in which the insurer bears your life expectancy risk and guarantees you a pre-determined income until your death (or that of your surviving spouse).

2. **Capital legacy: Will my dependants receive an inheritance after I pass away?**
   When choosing a retirement income solution, you will also need to consider the needs of any dependants that may survive you and whether you would like to provide

for them using any remaining portion of your retirement savings upon your death.

This is an important consideration, as with the traditional guaranteed life annuities, the capital dies with you and there is no capital inheritance for your dependants, unless you choose a guaranteed term and you pass away before the expiry of this guaranteed term. In this case you won't be leaving a capital inheritance, but you will leave an income for a specific period and this provision is not foolproof. Therefore, if you want to leave a legacy for you dependants, you may want to consider using a portion of your retirement savings to purchase a living annuity or an income with capital protection plan that will pay or transfer any remaining capital after your death, to your nominated beneficiaries or estate.

3. **Income flexibility versus secure income level: Will I be able to choose my desired income during retirement?**
   As we have seen from the global Covid-19 pandemic, no one can know for sure what the future holds, and we cannot know with certainty what our income requirements will be. The ability to choose your desired income and to change your income should the need arise, along with your need for a secure income, are therefore important considerations when choosing your ideal solution.

   If you should choose to include a living annuity in your retirement income solution, you will be allowed to select and change the annual income drawdown (the amount taken as income) each year, subject to the legislated limits. Whereas if you choose a guaranteed life annuity, your initial income and future income amounts will be pre-determined by the insurer, based on the purchasing amount, your demographics, and the prevailing interest rates at inception. The life annuity can provide a level income or income that increases by inflation or a specified percentage.

   Although conventional life annuities provide less income flexibility, a solution containing a guaranteed annuity provides you with income certainty that can help in ensuring that you continue to meet your living expenses (e.g., groceries, medical aid premiums, property, etc.).

4. **Income legacy: What will happen to my dependants if I die sooner than expected?**
   Should you pass away sooner than expected and the income payments from your chosen retirement solution cease, your dependants may be adversely impacted. This could be the case, for example, if you are using your retirement income to fund a dependant's tertiary education and living expenses.

   If you have opted for a guaranteed life annuity in your retirement income solution, you can elect to include a guaranteed period, at inception of the contract, which will ensure that the income is paid for the specified number of years and ensure that your dependants are provided for even if you pass away within that guaranteed period. In return for the guaranteed period however, you will receive a lower income amount than you would in a life annuity without the guaranteed period.

   Alternatively, a living annuity allows you to nominate a beneficiary who can elect to transfer the policy to a living annuity in their own name and/or receive the benefit as a lump sum upon your death.

5. **Providing for my spouse: Will my spouse still receive an income after I die?**
   It'simportant to consider the needs of your spouse and what will happen to them in

the event of your death.

If your retirement income solution is comprised of a guaranteed life annuity and you intend to use that portion of your retirement income to support both you and your spouse, then they may be financially dependent on that income. In such a case, you will need to assess whether your spouse will still require the income if you predecease them.

As an annuitant in a conventional life annuity, you can choose between a single life annuity, which will cease income payments at the stage of your death or the guaranteed period, or a joint-life annuity which will only cease income payments on the death of the surviving spouse.

6. **Investment flexibility: Will I be able to choose where my money is invested and change my insurer?**
   Annuitants of a guaranteed life annuity do not have a choice in the underlying investment of the capital. Investment-linked living annuities, on the other hand, are investment-linked and therefore allow for the annuitant to select the underlying investments and therefore the level of exposure to different asset classes.

   Depending on the retirement income solution you choose, you may not have the flexibility to move to another annuity or insurer. You can add to a living annuity, transfer a living annuity to another insurer or purchase a life annuity with your living annuity capital at a later stage. Once you are in the life annuity, you cannot add to the capital, and you cannot transfer the funds to a living annuity or another insurer.

7. **Exposure to investment risk: How will market movements impact my capital?**
   Your investment outlook and your appetite for exposure to investment risks should also be considered when deciding on the combination of products that will make up a suitable retirement solution.

   While investment-linked living annuities contain the associated risk of market fluctuations and poor investment returns which could negatively impact your retirement savings capital and income, annuitants of a guaranteed life annuity are not impacted by market movements in the underlying fund as the insurer takes on the investment risk.

8. **Liquidity: Will I be able to access my money if there is an emergency?**
   The remaining funds in a living annuity are currently only available to you as cash when the fund value is below R125 000 and the funds used to purchase a life annuity are not available at all. It is for this reason that it’s important to make provision for an emergency fund that can be accessed during your retirement years.

9. **Anticipated impact of inflation on income: Will my income be able to keep up with inflation?**
   To ensure that you can continue to meet your living expenses and your income is protected against a decline in purchasing power, you will need your retirement income to keep up with inflation.

   The market exposure in investment-liked living annuities can potentially provide income and capital growth that will allow for your annual drawdowns to keep up with inflation. Choosing to have your guaranteed life annuity increase in line with inflation can also protect against inflation increases.

10. **Tax: How will tax impact my retirement income?**
    The underlying capital investment in an annuity will be exempt from tax. The income provided from both life annuities and living annuities purchased, using compulsory retirement savings from a retirement fund, is however taxed at your marginal tax rate according to the income tax tables. This tax will be withheld by the respective insurer and means that the amount of your annual income drawdown will impact the amount of tax paid.

Glacier has several retirement solutions to assist you in retiring with confidence. Before choosing your combination of retirement income solutions, it is strongly recommended that you consult an appropriately accredited financial adviser regarding your unique circumstances and needs.