

Busting the Post-Retirement Jargon

by O'Hagan Attorneys | Jul 1, 2024 | Retirement Planning | 0 comments



“Often, when you think you’re at the end of something, you’re at the beginning of something else.” Fred Rogers

Retirement planning 101

If you’re part of a pension or provident fund or have a preservation fund and/or a retirement annuity, you can withdraw up to one-third of your investments to use as you wish. The remaining balance must be transferred to a compulsory retirement product, including a Living or Life Annuity. (Be aware that the provident and provident preservation fund rules changed in March 2021. Please discuss how this change impacts your options with us.)

Post-retirement planning lingo

1. **Life Annuity:** A Life Annuity is a contract with an insurance company that guarantees fixed or variable payments for the rest of your life. You can include your spouse, ensuring the income continues until both of you pass away. Opting for an income that escalates with inflation is highly recommended.

Advantage:

- Transfers the risk of outliving your savings to the insurer.

Disadvantage:

- Income ceases upon death, with no capital preservation for future generations.

The income from a life annuity is taxed at your marginal tax rate.

2. **Living Annuity:** A Living Annuity allows you to choose how much income you want each year (between 2.5% and 17.5% of your investment) and whether you want monthly or annual payments. Specific investments underlie the annuity.

Advantages:

- Greater flexibility and control over your money.
- Investments left over after your death transfer to your beneficiaries, facilitating generational wealth creation.
- Exempt from estate duty and executor's fees.
- No capital gains tax when switching underlying investments.

Disadvantages:

- Higher risk and responsibility compared to a Life Annuity.
- Risk of running out of money if withdrawals are too high or the asset allocation underpinning your investment is not ideal. (But remember: that's our job!)

The income from a Living Annuity is also taxed at your marginal tax rate, but at the source by the provider. You can specify the tax rate so that it aligns with your marginal tax rate – a nifty way of simplifying your tax affairs.

3. **Hybrid Annuity:** A Hybrid Annuity combines elements of Life and Living Annuities, offering the best of both worlds. You can convert your Living Annuity into a Life Annuity at any time, but not vice versa. Speak to us about the details.

Embracing life in retirement

Understanding and planning your post-retirement investment options is crucial, as is preparing for a fulfilling retirement. Initially, many experience a honeymoon phase, enjoying the newfound freedom. However, as retirement sets in, some may feel a lack of purpose. Here are some ideas to assist you living your best retirement life.

- **Family first:** Spend quality time with your grandchildren, get involved in their routine, and assist with their homework. You could also assist a family member or friend who is unwell and needs care.
- **Lifelong learner:** Take up a musical instrument or learn a new language. Apps like Duolingo make language learning accessible and fun. Keeping abreast of technological changes can help you stay connected and keep your mind active.

- **Work it off:** Working into retirement can keep you young. Consider a less stressful position, mentor younger professionals, or volunteer with a PBO.

The bottom line

Knowledge is power when making significant decisions about retirement. Gather as much information as possible and understand your risk tolerance and ability to live within your means. While you're at it, consider creating an agenda that prioritises activities that bring you joy.